INDIA'S INDUSTRIAL POLICY IN THE CONTEXT OF DEVELOPMENT UNDER THE FIVE YEAR PLANS

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PREFACE

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PART I

CHAPTER I

INTRODUCTION

Any discussion on Industrial Policy in India must naturally start with age old controversy regarding the reconciliation of the rival claims of agriculture and Industry.

Modern Industrialisation is the product of that great process of Economic and Social change which introduced and expedited mechanised production. Production in the eighteenth century, commonly describe as Industrial Revolution. But it is not generally realised that the enormous changes and transformations which have taken place in the world of Industry since the Industrial Revolution are no less revolutionary either in their economic impact or in organisational ramifications. The truth of the matter is that the character and magnitude of the technological revolution in the domain of organised large scale production during the last hundred years has surely been much more startling and spectacular.

The Government of India set out in their Resolution dated 6th April 1948, the policy which they proposed to pursue in the Industrial field, the resolution emphasised the importance to the economy of securing a continuous increase in production and its equitable distribution, and pointed out that they must play a progressively active role in the development of Industries. It laid down that besides arms and ammution atomic energy and

Railway Transport, which would be the monopoly of the Central Government. The rest of Industrial field was left open to private enterprise.

The Industries Development and Regulation Act, 1951, which came into force on 8th May 1952, brought all the major industries except Plantation under Government supervision. By an amending Act of 1953, some Industries were brought under its scope and provided registration of some existing units.

Some basic and general principles were given a more precise direction when Parliament accepted in December 1954, the socialistic pattern of society in the objective of Social and Economic Policy. Industrial Policy like other policies must there be governed by these principles and directions.

For the Third Plan, the Government did not consider it necessary to announce any fresh Industrial Policy. Though both the Second and Third Plans have been guided by the principles of industry and minerals, the Planning Commission in July 1966 requested Prof. R.K. Hazari of the University of Bombay to conduct a study so as to review the operation of the Industrial Licensing System over the two plans period, one of the conclusion was that large and medium sized business groups enjoyed a higher ratio of approved Licensing application.

After the Rajya Sabha debate, Dutta Committee was appointed in 1967 and the Committee has defined the large Industrial Houses, which have been mentioned in Chapter 17 and 18. In 1970 New

Industrial Licensing Policy was announced which also deals about the Sectors and limit of the Houses. It has been mentioned in Chapter 18. On 2nd February 1973 Modified Licensing Policy was also announced.

The last two concluding chapters discuss more widely about the investment crisis in Public Sector.

Before however turning to all these an idea of the Industrial Policy in developing economies is necessary, so the beginning has been made with a "Role of Industrial Policy in Developing Countries".

CHAPTER 2

ROLE OF INDUSTRIAL POLICY ON ECONOMIC DEVELOPMENT OF DEVELOPING ECONOMIES

Industrialization refers to "a process" in which changes of a series of strategical production functions are taking place. It involves those basic change that accompany the mechanized of enterprise, the building of a new Industry, the opening of a new market, and the exploitation of a new territory. This is, in a way, a process of deepening as well as widening capital.[1] A.H. Hanson defines the deepening process as one where "more capital used per unit of output, while the widening process means that capital formation grows pari passu with the increase of the output of final goods."[2] In other words this process raises productivity per worker in the country. Eugene Staley marks an association between industrialisation and high productivity which makes high average incomes. "The two are parts of interlinked process. One does not proceed very far without the other. It is equally true to say (1) that high productivity produces industrialisation and (2) that industrialisation produces high productivity." It is in this sense that some writers, such as Condiliffe and Rosenestein-Rodan, has viewed industrialisation as an alternative to emigration for solving the problem

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1. Pei. Kang Chang. Agricultural and Industrialisation, p. 69.
2. Fiscal Policy and Business Cycles, p. 335.

of overpopulation and of raising the National income in economically less developed area. It is also in this sense that industrialization and agricultural reconstruction in underdeveloped areas are considered as the interconnected parts of one problem.

Industrialisation are also treated as a process in which the economic gains of industrial progress, mainly the nature of increasing returns are continuously created and the wholly or partially realized. Besides, industrialisation lifts the margin of dimension return. Increasing returns may be realized because of internal economics, or external economies both. Under a particular state of technology there is a certain scale or range of increasing return for an industrial enterprise or an industry. But a new technological innovation will prolong the scale, or enlarge the range, or create a new scale or range. Thus industrialization in which process in which scales and ranges of increasing returns are continuously created are frequently prolonged and enlarged.

Industrial policy refers to that policy of the Government which estimulates and encourages this process in which scales and ranges of increasing returns are continuously created and frequently prolonged and enlarged. It is an important part of the general policy of economic development of a country. Like all polities, Industrial policy is not an end in itself but a means for attaining certain well defined objectives.

In this chapter, a humble attempt has been made to discuss

and analyse the industrial policy in the context of economic development in general and industrial development in particular, of developing economies (with special reference to India).

Characteristics of Developing Economies

According to U.N.O. Experts, developed countries are those having per capita income of 300 Dollar (£ 1) and above and developing countries are those having below 300 dollars, the former comprise 69 countries and the later 89 countries out of a total of 158 countries.

Rich and Poor countries of the world 1965

Group	No. of countries	world area %	World population %	GNP %	Exports %	Per capita income
A. Rich	36	43.60	28.56	82.05	80.50	1587
B. Middle income	33	8.19	6.48	5.43	7.86	463
C. Low	53	21.84	14.11	4.75	8.19	186
D. Very low income	36	26.37	50.85	7.77	3.45	94
India- very Low		2.33	15.24	2.41	0.91	90

69 countries of A and B group termed developed countries and 89 countries of C and D groups are developing countries.

The developing countries of Asia and Africa including India have started planned development of their economies with great zeal and industrialisation is one of the main objects of their planned development. In fact their backwardness is proverbial

not only in agriculture but also in industry.

There is nothing wrong regarding in underdeveloped area as one which has a low level of income, national as well as per capita, and a poor standard of level but that takes us to the symptoms only, not to the disease. Moreover, such a statement relatively understood, could imply any country, except the top one, to be underdeveloped.[1] The best way is to define underdeveloped areas is as places where, on being left to themselves the determinants of economic development fail to harmonise effectively for purposes of growth over a long period.

There are thus to important facts which should be taken into consideration; one, that the forces of development tend to be lost or neutralised, and two, that the whole process is to be viewed from a long rather than a short period angle.

The main characteristic of underdeveloped countries are briefly mentioned. They are :

(1) Low National Income - One of the most important characteristic of underdeveloped countiies is that they are poor both in income and capital. The degree of paucity can be judged from the figures of National (G.N.P.) and per capita income.

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1. Problems of Monetary Policies in underdeveloped countries by Dr. P.D. Hajela (page 1).

National Income of Developed and Underdeveloped countries 1965

Countries	G.N.P. Million U.S.A. $	Per capita U.S. $
Developed		
GP A. U.S.A.	630,413	3,240
U.S.S.R.	230,600	1,000
W. Germany	95,646	1,620
Japan	74,449	760
Under-Developed		
GP C. Iran	5,704	230
Ceylon	1,573	140
GP D. India	43,813	90
Indonesia	8,883	85
Malavi	158	40

According to the data compiled by the World Bank, at one end, there is Kuwait with per capita Gross National Product (G.N.P.) of 3270 Dollar, at the other end of the scale comes Malavi with per capita (G.N.P.) of just forty dollars. This gives the ratio of 1 ; 82 for the inequality of income on the World Scale. The most striking fact that emerges from these data is 36 very poor countries of group D (with per capita G.N.P. less than 100 dollars) sustained half the population of the world, but this half of the world population has only one quarter of the Geographical land area of the earth and enjoys only 8% of the world's total G.N.P. and there share in the

world's total exports is a miserable 35%, at the other end we find that 36 rich countries of Group A (with per capita income of 7.50 dollars and above) have only 29% of the world's population, but they command 44% of the geographical land area of the earth and enjoy 82% of the total G.N.P. and account for 80% of the world's export. Per capita G.N.P. of this group taken as a whole is, on average about nineteen times as high as that of very poor half of the world.

2. Lack of capital and low level of Productivity

As a consequence of low income, these countries have low propensity to scale, resulting in low capital formation and low productivity. Poverty reacts upon the size of market and capacity to scale and thus limits capital attraction and formation. Consequently traditional labour - intensive occupations continued, their low productivity being a cause of the prevailing poverty. The United States, Canada and Western Europe plough back into their economies of 15 to 18% of their national income. The rate of capital formation is 17% in Sweden and 25% in Norway, while most under developed countries with traditional economies save no more than 5 to 6% of their net national income. Shortage of capital is both a cause and an effect of low productivity in underdeveloped countries. It is a connecting link between low level of productivity and economic poverty. Most of these countries find it difficult to finance their programme of industrialisation and have to relie on absolute and outmoded machinery and equipment resulting in low productivity. Further, capital deficiency has made inroads into the body of knowledge, training and

research, affecting the level of productivity efficiency of poor countries.

3. Pressure of Population :

With 48% land area 89 underdeveloped countries sustained 65% of the world land area has 15.2% of world population. Naturally, the pressure of population on land is very high, resulting in poverty and want. The density of population per square mile of area is 3 in Canada, 15 in U.S.A., 193 in France, 108 in Indonesia, 123 in China and 373 in India. As such the standard of living of people of these regions is very low and large part of production goes to consumption.

4. Too much dependence on Agriculture :

Underdeveloped countries are characterised high degree of subsistance production with a very limited application of technology, as a consequence, manufacturing is unimportant and agriculture sector is paramount. In Great Britain only 4% of the working population is engaged in primary activities, the lowest proportion for any country, whereas nearly half are engaged in secondary activity, the highest for any country. In Belgium these proportions are 8% and 45%. In West Germany 16% and 46% respectively. As against this in Turkey 80% population is engaged in primary activities and only 10% in secondary ones. These proportion for India are 70% and 10%, for Algeria 72% and 12%, for Egypt 57% and 8% and for Brazil 58% and 17% respectively. Much of the poverty of underdeveloped countries is attributed to pressure of population with no alternative employed forcing for too many into agriculture.

(5) Under Utilization of Natural Resources

The existence of Natural resources which have remained underdeveloped is one of the major characteristics in underdeveloped countries. Vast tracts of underdeveloped soil are lying unused in the continents of Asia and Africa, Latin, America, Australia and groups of Ilands. According to the survey of the Middle East countries viz., Turkey, Egypt, Iran, Iraq, Syria, Israel, Lebanon and Jordan, less than one third of the land area was cultivated; Europe (excluding U.S.S.R.) has 1.4 million square miles of cultivable land, Lalin America 7 million square miles, Africa 6 million square miles and Oceania 1 million square miles. According to official statistic for 1954-55 as much as 1/3 (about 32%) of the land area is cultivable. Thus world's total area of cultivable land is estimated at 24 million square miles (Figures to be revised and made up-to-date).

Nature has endowed poor countries with rich water resources, but they used at present a very significant part of their available water power. Africa utilizes little more than 1%, Asia only 13%, Middle America 8% and South America is not more than 3%. Over 90% of the water power of the poor countries have remained undeveloped for one reason or the other.

Similarly, for want of a scientific approach to forestry based on modern technology and Botany, the forest potential of underdeveloped regions has been ~~mi~~ un utilized.

Unemployment, Disguise employment and underemployment

In developed countries unemployment is redical but in under-

developed countries it is permanent due to lack of capital equipment and machinery. The underemployment of human and material resources is a basic characteristic of developing countries. In predominantly agricultural economy like India, there is a new type of unemployment which is known as disguise unemployment. The expression disguised unemployment used by[1] Mrs. John Robinson has been extended by many writers to describe the condition prevailing in underdeveloped countries. Dorren Warriner[2] and Lamartine Yates[3] have drawn attention to the existence of disguise unemployment in Eastern Europe; W.E. Moore has described the 'hidden unemployment' of the Balkan countries.

Describing condition in Asian countries including India, they point out that there has been a substantial volume of disguised unemployment - in the sense that many workers are engaged in less productive work than they are capable of, because they would otherwise be unemployed. The term disguised unemployment can also be defined as the condition in which total production remains uneffected even after transferring same person from the land to other subsidiary occupations, total production remains uneffected or at sometime even increases. In this case either the marginal productivity of some workers is zero or is minus. Mrs. John Robinson use the term disguised unemployment to mean

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1. Mrs. John Robinson, "disguise unemployment", Economic Journal, June, 1936, p. 225.

2. D. Warriner, "Economics of Peasant farming", London, 1939, Chap. 3.

3. D. Warriner and Yates "Food and Farming in Post War Europe", London, 1943, Chap. 4.

the lack of work of the type that would fully utilize the degree of skill possessed by the workers.

The term underemployment has been used mostly by American Economists, to mean less than full employment in the sense that more than the normal minimum are unemployed. The term is used to mean relatively unproductive employment of less than full time employment. This type of situation is a recurring and continuous feature of underdeveloped countries.

(7) Factor Disequilibrium :

Factor immobelity is also an important characteristic of poor and underdeveloped country. For instance, labour is highly immobile in underdeveloped areas. In many occupations workers may be hawkering around zero productivity. The flow of capital is not smooth and easy in underdeveloped countries. Social attitudes and institutions about saving and investment interfere saving habits and channels of investment. Besides, monopolistic production ignorance of existing domestic and international market possibilities, lack of specialization, rigidity of price and production structure and unprogressive social set up create various imperfections resulting in some marginal allocation of resources.

(8) Economic Backwardness of People :

It should be borne in mind that much more than possession of resources in land, labour and capital is necessary for furtherence of economic development. The most important factors are human ones; in the last resort everything depends upon the people themselves -

their numbers and age structures, their enterprise and initiation their investiveness, their level of technical knowledge, and above all their desire for material betterment and their willingness to make necessary sacrifices attain it. Resources in themselves are quite passive, the understanding of their possibilities, their will to use them, the application of capital and technical know how are the means by which the resources become an active element in economics. In most of the underdeveloped countries because of the ignorance, apathy, illiteracy and lack of proper will, the economic resources continued to remain passive inspite of their availability. This is one of the most important hindering force in accellerating the pace of economic development of those countries.

(9) Vicious Circle of Poverty :

Underdeveloped countries suffer from vicious circle of poverty. They are poor because they are poor. In those countries due to low per capita income, high level of propensity to consume. There is very little saving. Because of the low income and high level of consumption capital formation in underdeveloped countries is very low. Those countries faced with the problem of capital formation which is very acute. As we know any scheme of Economic development, without adequate capital formation is not likely to succeed. These countries are engrossed with this type of vicious problems i.e., low income and high consumption making capital formation inadequate and difficult. Further, in these countries the rate of increase in population is much greater as compared to developed countries which possess a basic problem of capital formation. Therefore, the object of economic policy in

general and industrial policy in particular, in these countries should be first to break up this vicious circle and to lift the economy from the morals of stagnation, poverty, unemployment and economic backwardness.

(10) Dependence of Export :

One of the weaknesses of underdeveloped countries is the high relation on exports of raw materials which carried the economy. In 1959 86% of the exports of Thailand consisted of rubber, rice, Tin and Teak; Malasia earn 75% of her foreign exchange from Rubber and Tin; Ceylon earn 73% from exports of Tea and Rubber, Iran earns 90% of her foreign exchange by exporting oil and sand, Arabia and Kawait do likewise. In Egypt cotton contributes 90% of her foreign exchange receipts, in Venezuela petroleum accounts for 97%, in Bolvia ore exports obtained 70%, in Chile copper pays 50%, in African regions staple commodities like groundnuts, cotton, copper account for 40 to 80% in different areas. This heavy reliance on exports expossess the underdeveloped economies to a number of disrupty economic forces like Trade cycle, originating in foreign markets, price fluctuations, unemployment etc.

(11) Inadequacy of Industrialization :

The underdeveloped countries are largely backward in industrialization. There is weak industrial structure with no adequate supply of capital goods and machinery. The back technique further weakens industrial structure, manufacture of industrial machinery has just started from a scrap.

PART II

CHAPTER 3

OBJECTIVES OF THE FIRST PLAN

The general order of priorities in the Industrial field approved for the period of the First Five Year Plan was as follows;

(i) Fuller utilization of existing capacity in producer goods Industries like Jute and Plywood and consumer goods Industries like Cotton Textiles, Sugar, Soap, Vanaspati, Paints and Varnishes.

(ii) Expansion of capacity in capital and producer goods Industries like Iron and Steel, Aluminium, Cement, Fertilizers, Heavy Chemicals, Machine Tools etc.

(iii) Completion of Industrial Units on which a part of the capital expenditure has already been incurred, and

(iv) Establishment of new plants which would lend strength to the industrial structure by rectifying as far as resources permit the existing lacunae and drawbacks, e.g., manufacture of sulphur from gypsum chemicals pulp for rayon, etc.

With a view to co-ordinate plans of development and proper implementation of policy, a National Development Council has been established.

The Industries (Development and Regulation) Act, 1951, which came into force on 8th May 1952, brought all the major industries, except Plantations, under Government supervision. The Act also provided for the institution of Development Councils for establishing the necessary liason between the two sectors, and for ensuring the development in the private sector in conformity with the general pattern of the plan. By an amending Act of 1953, some more industries were brought under its scope and provided registration of existing industrial units. Licences were made necessary for new undertakings or for expansion of existing ones. A Central Advisory Council was set up in May 1952 to advise the Government regarding development and regulation of Scheduled Industries.

The Industrial programmes for the First Five Year Plan were set out in detail in the volume on "Programmes of Industrial Development, 1951-56". The annual progress reports on the First Five Year Plan also furnished information regarding progress made during each year.

Taking the period of the First Plan as a whole the total fixed investment, both Public and Private Sector, in manufacturing industries amounted to Rs 293 crores of which private investment amounted to Rs 233 crores. The production of capital goods increased by about 70%. The production of intermediate goods, mainly industrial raw materials, increased by 34%. The overall increase in Industrial Production amounted to 38%.

While allowance has to be made for the fact that the levels of production in several industries before the First Five Year Plan

were relatively low, the following statement of Percentage increases achieved in number of industries indicates the range over which advances have been made during the First Five Year Plan.

Table I

	Percentage increase 1950-51 to 1955-56
A - Capital Goods :	
Diesel Engines	87
Machine Tools	133
Wagons	100
Complete rings, spinning frames	230
Grinding wheels	134
Automobiles	53
Railway Locomotives	660
B - Intermediate Goods :	
Cotton Yarn	39
Jute Manufactures	28
Plywood	109
Sulphuric acid	65
Caustic Soda	211
Soda Ash	80
Rayon Filament	187
Pig Iron	14
Finished Steel	30
Aluminium	99
Cement	71
C - Consumer Goods :	
Cotton Cloth	37
Rubber Footwear	95
Soap	37
Vanaspati	80
Bicycles	408
Paper	64
Sugar	60

In private sector, investment targets in the plan were fulfilled and through the more intensive utilization of existing capacity, production was stepped up along lines broadly envisaged in the plan. In some of the producer goods industries, however,

progress in the establishment of additional capacity fell short of anticipations in the plan. This was the position, for instance, in iron and steel, aluminium and nitrogenous fertilizers.

Both in respect of production and new investment satisfactory progress was made during 1955-56. Industrial production rose in 1955-56 by 7% above the level of preceeding year. The production of capital goods increased by 28.3% over the preceding year; corresponding increases for intermediate and consumer goods being 5 and 6.2% respectively. Imports of machinery increased to Rs 118 crores compared to Rs 85.3 crores in the preceding year. The growing demand for capital goods was also reflected in the increase in the domestic production of machinery items such as spinning ring frames, carding engines, transformers, electric motors, diesel engines and structural goods. During the year, developmental commodities like iron and steel and cement were greater demand and were also available in somewhat larger quantities. All these indications suggest that in 1955-56 industrial activity was sustained at a high level.

Development Councils were set up during 1955-56 for the following industries :

(i) Light electrical industries;
(ii) Heavy electrical industries;
(iii) Pharmaceuticals and Drugs;
(iv) Heavy Chemicals;
(v) Woollen Textiles;
(vi) Art Silk Textiles.

The industries of India, apart from agriculture, can be conveniently considered under two heads, accordingly as they are Small Scale Industries, hand operated, or large scale industries concerned with power-driven machinery. The following table shows the number of working factories and average daily number of workers employed therein :-

Year	Factories	Number employed (in '000)
1939	10,466	1,751
1945	14,761	2,643
1947 (Partition of India)	14,576	2,275
1951	30,834	2,537
1955	30,148	2,690

The above figures show that the peak employment was reached in 1945. The end of the war led to a sharp decline. An appreciable improvement took place in 1951, and the peak was surpassed in 1955 under impact of the First Five Year Plan.

CHAPTER 4

DEVELOPMENT IN PUBLIC AND PRIVATE SECTOR

DEVELOPMENT IN THE PUBLIC SECTOR -

During 1955-56, the Penicillin Plant of Hindustan Antibiotics Ltd., The Integral Coach Factory, Peranpur in Madras, the Machine Tool Factory at Jaâahalli, and the Electronic and Wireless Equipment Manufacturing Plant of Bharat Electronics Ltd., went into production. Industrial Units which had come into production in the preceding year, such as the Coke-oven plant of the Sindri Fertilizers Factory, the D.D.T. Factory and U.P.'s Cement Factory recorded a rise in production. The Mysore Iron and Steel Works commenced the smelting of iron ores in the second electric Pig Iron furnace which went into operation in December 1955. The Bihar Superphosphate plant, however, was still incomplete at the end of March, 1956.

During 1955-56 Indian Telephone Industries took up the production of a larger number of components and 70% of components relating to auto-exchanges are now being manufactured within the country. The regular production of various types of small exchanges has been begun and a start has been made with the manufacture of 12½ channeled carrier Telephone Systems for open wire. Among minor items which were developed during 1955-56 by Indian Telephone Industries were magneto Telephone inter-cum-

telephones, low impedence receivers for the Air Force, Switch Telephone Instruments and Cordless trunk exchange.

Following the decision of the Central Government to increase the Steel ingot capacity of the Rourkela Steel Plant to 1 million ton, a supplementary agreement was entered into with the German Combine of Krupp-Demag in July 1955. In accordance with this agreement the technical consultants submitted in November 1955 the first part of their final report. With some modifications, Government approved the plant capacities, pattern of development and processes suggested by Krupp-Demag. To save time, Hindustan Steel Ltd., prepared specifications and obtained tenders even while the project report was under preparation for portion of the plant in respect of which no radical re-designing was involved on account of the decision to increase the capacity of the plant. Civil Construction Works and arrangements for the supply of water and power at the site of the plant were taken in hand. The relatively slow progress made during the First Five Year Plan in the execution of the Steel plant project is accounted for by the time taken in negotiations with a foreign firm regarding the agreement for collaboration, the volume of preparatory work involved and the time taken in determining the final size of the plant.

In 1953 it was agreed to establish an electrical insulators plant at the Government Porcelain Factory, Banagore. The scheme made good progress in 1955-56 and the plant was expected to be commissioned in 1956-57.

After enquiry by an expert committee in the early months of 1955, the Durgapur project of the West Bengal Government was approved in May 1955. During the following months, the State Government placed orders for the Coke-oven and by-product plant with Messrs Karl Still Ltd., and for a 60,000 Kw Thermal Power Plant which had been visualised as an integral part of the Durgapur Scheme. An investment of about Rs 90 lakhs is estimated to have been made on this project.

In November 1955 an agreement for technical assistance for the Heavy Electrical Equipment project was concluded with Associated Electrical Industries Ltd. Towards the latter of 1955 it was agreed that the National Industrial Development Corporation (NIDC) should process the following projects :

(i) Establishment of Steel foundaries, forge and steel structural shops;
(ii) Manufacture of intermediate dye stuffs;
(iii) Manufacture of wood pulp;
(iv) Manufacture of Carbon black;
(v) Manufacture of Printing Machinery;
(vi) Manufacture of Compressors and Fractional horse-power motors.

The NIDC also set up two boards - one in Calcutta and the other in Bombay - to examine applications from the Jute and Cotton Textile Industries for loans to carry out rehabilitation and modernisation programmes.

A preliminary report on the Bhilai shop was prepared and

quotations were received from Germany, U.K. and Austria. And in regard to the proposal for the manufacture of wood pulp, two expert teams, one from Germany and other from Italy, visited India during the year and collected data regarding raw materials. The reports of the teams had not been received until the end of 1955-56.

Thus, during 1955-56, the activities of the NIDC were mainly confined to the preliminary investigation of a number of basic projects to be developed under its aegis.

The Constitution of India, which became the Fundamental Law of the land in January 1950 contained the seeds of the socialistic pattern of the society with emphasis on social and economic justice. The Preamble mentioned "Justice, social, economic and political and also equality of status and opportunity." The Directive principle envisaged a truly welfare state. The Planning Commission accepted the Industrial Policy resolution of 1948 as the basis of economic policy for the rapid industrialisation of the country. The economic policy as defined in 1948 remained in force until 1954 by which time there was a definite start towards socialism and progressive extension of the Public Sector was accepted as a goal and the "mixed economy" concept was regarded as some what outdated. The Parliament of Resolution of December 1954 stated that the Public Sector Industry was to be extended wherever possible.

Public enterprizes help to expedite the process of industrialisation by venturing in sectors which need heavy investment which private entrepreneures can not afford.

They accelerate economic growth, the rate planned by the Government being much faster than that envisaged by the private sector generally.

The Public Sector can allocate resources according to national priorities while the Private Sector has no consideration for balance development of the country. The developing countries such as India, substantial financial resources are required for development purposes. Profit of Public enterprizes can be invested in the same industries or utilized for establishment and expansion of other industries while the profits of the private sector go merely to enrich the capitalists. Public enterpkizes are indeed necessary for socialistic pattern of society. The number of Public enterprises now exceeds 125.

PRIVATE ENTERPRISE

How Private, then, is India's private Industry? Joint Stock enterprize in it has no doubt substantially expanded in recent times. In the major manufacturing, minning and plantation industries taken together, there were twice as many companies in 1949 as in 1943, and by 1953 another thousand companies hed been registered to make the total nearly 7,000. The paid up capital in these industries stood at about Rs 4,000 million in 1953, in 1943 it was less than Rs 1,600 million and in 1949 about Rs 2,750 million.

Significant increase in installed capacity took place during 1955-56 in the cement, sulphuric acid, paper and paper board, rayon filament and staple fibre and electric motor and transformer

industries. These were due to expansion and modernisation of existing plant as well as the establishment of new units. In the sugar industries, installed capacity expanded by about 1,00,000 tons and in cotton textiles, the spinning capacity was estimated to have increased by about 1,50,000 spindles. The percentage increase in capacity 1955-56 compared to the preceding year under these industries is shown in the following table.

Table 1

Percentage increase during 1955-56 in capacity in some major Industries

Sl. No.	Industry	Unit	Installed capacity 1955-56	Percentage increase 1955-56
1.	Cement	'000 tons	4,931	11.1
2.	Sulphuric Acid	do	242	15.8
3.	Paper and Paper Board	do	210	12.9
4.	Rayon filament	Million lbs	22.3	29.7
5.	Electric Motors	'000 HP	263	31.5
6.	Sugar	'000 tons	1,740	5.8
7.	Cotton Textiles			
	i. Cotton Yarn	'000 spindles	12,051	0.8
	ii. Cotton cloth (Mill made)	'000 Looms	203	

<u>Progress on long-term Projects</u> - As regards long term projects, the implementation of the steel expansion programmes of TISCO and IISCO gathered momentum during the year. The decision taken by the Central Government in May 1955 to fix a uniform retention

price of ₨ 393 per ton was intended to increase the internal resources of the steel companies for the execution of their programmes. The aluminium project of the Indian Aluminium Company in Orissa was still in the preparatory stage. Of the three Soda ash projects approved for development in 1954, resources for financing two projects were secured in 1955 and orders for plant and machinery were under negotiation. Work on the progressive manufacture of diesel trucks and on the heavy foundary project of the Locomotive and engineering company proceeded according to schedule during the year.

During the period of the first plan it was envisaged that an investment of ₨ 233 crores would be necessary to meet the expansion programme of industries in the private sector. The expenditure on replacement and modernisation of plant and machinery in the various industries was estimated at ₨ 230 crores of which about ₨ 80 crores were attributed to the higher cost of plant and machinery ruling during the plan period as compared to the earlier years. Thus an aggregate expenditure of ₨ 463 crores on new projects, replacement and modernization was envisaged in the plan. As against this, it was estimated that the total gross investment in fixed capital in the private sector during the plan period had been of about ₨ 340 crores.

The overall investment in new units and expansion came very nearly to the figure of ₨ 233 crores since outlay in the fields like totton Textile, power generation, paper and paper board and cement and refractories exceeded the amounts which

had been originally anticipated. The expenditure on replacement and modernisation of plant and machinery in various industries in the private sector had been only about Rs 105 crores, as against the original estimate of Rs 230 crores, which left apparently a considerable volume of arrears to be made up during the early part of the second plan.

As regards the direct loans from the Central Government they were mainly for the steel expansion programmes, the amount advanced being Rs 4.39 crores for Tata Iron & Steel Co. (TISCO) and Rs 1.78 crores for Indian Iron & Steel Co. (IISCO). There was also marked increase in the activities of the Industrial Finance Corporation (IFC) and the State Financial Corporation (SFC). The Industrial Finance Corporation sanctioned loans aggregating Rs 13.39 crores to 41 industrial concerns during the year 1955-56 as compared to loans for Rs 7.08 crores to 23 concerns in the preceding year. Three new State Finance Corporations came into existence during 1955-56, thus raising their total number to 13. The Industrial Credit & Investment Corporation (ICIC) of India, was still in the early stages of development during 1955-56.

The RBI computed that at the end of 1953 the total foreign business investments in India amounted to about Rs 4,200 million.

The index of industrial production averaged at 129 (1951 = 100) during the year. The large increases in production recorded by the Soda ash, Petroleum refining and benzine hexachloride

industries in 1955-56 were due to full utilization of new capacity which was installed in the preceding year. For the automobile industry the year proved to be turning point, following a substantial expansion of demand. <u>In 1955 industrial production was 60% above the 1946 volume.</u>

CHAPTER 5

DEVELOPMENT OF SMALL SCALE INDUSTRIES

Small Scale Industries are an important sector in the national economy because they can readily adopt modern techniques and small machines can function as feeders of ancillaries of large scale industries and can cater to expanding markets. Efforts for promoting Small Scale Industries were intensified from 1954 onwards along lines recommended by an international team which was sponsored by the Ford Foundation. Broadly, the aim of the programme was to provide financial and Technical assistance to the existing Small Scale Industries and to encourage the establishment of new ones. The three principal requirements of Small Scale Industries were - (i) improvement in techniques of production and management; (ii) credit facilities both for investment and for working capital; and (iii) provision for common service facilities. For carrying out programme the Central Government set up a small scale industries Board (which included the representatives from the States) appointed a development commissioner for Small Scale Industries, and established regional Small Industries Service Institutes and a National Small Scale Industries Corporation. At the same time, the State Governments were assisted in strengthening the staff of Industries Departments. The Central Government undertook to bear 50% of the additional expenditure involved for a period of

three years beginning from 1955-56.

The Small Industries Service Institutes - Four regional Small Industries Service Institutions which were established at Delhi, Bombay, Calcutta and Madras were intended to serve as the main centres for an industrial extension service which could provide technical assistance and guidance to small entrepreneurs in urban and rural areas. Branch Institutes were set up at Trivandrum, Hyderabad, Patna, Ludhiana, Rajkot and Agra and started functioning during 1955-56. It was also decided to set up such branch institutes at Allahabad, Cuttack, Shillong, Indore and Bangalore.

The National Small Industries Corporation, set up in February 1955 with an authorised capital of Rs 10 lakhs was entrusted with many of the commercial and marketing aspects of the development of Small Scale Industries. The Corporation had some success in negotating for orders with the Central Government's supply organisation. At the end of the First Plan, when its work was still in its early stages, it had supplied machines woth Rs 8 lakhs on hire-purchase terms.

During 1955-56, State Financial Corporations were established in Madhya Bharat, Andhra and Orissa, thus bringing the total number of such corporations so far established to thirteen. In 1955-56 State Finance Corporations approved loans amounting to over Rs 3 crores of which about Rs 1.5 crores were actually disbursed. With a view to making available to Small Scale Industries

earlier and better credit facilities in a co-ordinated manner, in 1955-56 a "Pilot" Scheme was taken up by the State Bank of India in consultation with R.B.I. and collaboration with other institutions and agencies.

During 1955-56, 15 industrial estates of different sizes were approved and assistance amounting to Rs 51 lakhs was sanctioned. The entire cost of the industrial estates was given by the Central Government, while the responsibility for construction and management was generally entrusted to the States. The Industrial Estates at Okhla (New Delhi) and at Naini (Allahabad) were entrusted to the National Small Industries Corporation.

CHAPTER 6

PRODUCTION TABLE OF VARIOUS INDUSTRIES UNDER THE FIRST PLAN PERIOD

Statement showing capacity and production levels in 1950-51, targets laid down in the first five year plan for 1955-56 actually estimated to have been achieved in 1955-56.

Table 1

ndustries	Unit	Target for 1950-51 Rated capacity	Target for 1950-51 Production	Target for 1955-56 Rated capacity	Target for 1955-56 Production	Levels estimated to have been achieved by 1955-56 Rated capacity	Levels estimated to have been achieved by 1955-56 Production
1	2	3	4	5	6	7	8
. Metallurigical Industries;							
1. Iron & Steel							
a. Pig iron for foundaries	'000 tons	-	350	-	750	380	380
b. Finished Steel	"	1,015	976	1,650	1,650	1,300	1,300
2. Ferro-manganese	Tons	28,000	N.A.	-	-	28,000	-
3. Aluminium	Tons	4,000	3,677	20,000	12,000	7,500	7,500
Mechanical Engineering Industries							
4. Industrial Machinery							
a. Cotton Textile							
1. Carding Eng-	Number	600	-	600	600	792	649 (1955)

(continued)

ble 1 (continued)

1	2	3	4	5	6	7	8
ii. Spinning ring frons	Number	296	260	800	700	1,596	863 (1955)
iii. Looms	Number	3,600	1,894	8,000	6,000	4,980	2,787 (1955)
(b) Jute Textile	Value (Rs crores)	-	-	-	-	-	0.06 (1954)
(c) Cement	"	-	-	-	-	-	0.56 (1954)
(d) Sugar	"	-	-	-	-	-	0.28 (1954)
(e) Paper	"	-	-	-	-	-	Negligible
(f) Printing	"	-	-	-	-	-	do
(g) Others	Numbers	3,000	1,101	4,600	4,600 (Rs 5 crores)	-	Rs 1 crores
Structural fabrication	'000 tons	-	-	-	-	226	180
Railway Rolling stock							
i. Locomotives	Numbers	N.A.	N.A.	-	438	170	500
ii. Wagons	"	6,000	2,924	-	30,000	15,000	41,966
iii. Passenger coaches	"	850	479	-	4,380	1,100	4,384
Shipbuilding	GRT	-	-	-	100,000	-	50,000
Automobile & allied industries							
i. Automobile (manufacturing only)	Number	30,000	16,579	30,000	30,000	29,000	25,000
ii. Motorcycle & Scooters	"	-	-	-	-	11,000	1,500
Ball & Roller bearings	'000 numbers	600	87	1,200	1,200	600	889
Agricultural implements & Machinery							
i. Power driven pumps	'000 numbers	33	34	69	80-85	67	36
ii. Diesel Engine	Numbers	6,320	5,340	39,725	50,000	20,000	10,000
Bicycles	'000 Numbers	120	101	330	530	760	550
Sewing Machines	"	37.5	33	91.5	91.5	46.5	110

(continued)

Table 1 (continued)

1	2	3	4	5	6	7	8
13. Huricane Lanterns	'000 Numbers	4,260	3,244	4,000	6,000	5,000	5,400
14. Coated abrasives grinding wheels							
i. coated aprasive	Rears	-	-	-	-	150,000	80,000
ii. Grinding wheels	Tons	360	231	840	750-800	1,520	800
C. Electrical Engineering Industries							
15. Electric Transformers (3 KV and below)	000 KVA	370	179	485	450	657	629
16. Electric Motors (200 H.P. and below)	000 H.P.	150	99	300	320	263	271
17. Electric Cables and wires A.L.S.R. Conductors	Tons	2,500	1,674	5,000	5,000	13,370	8,730
18. Electric Fans	000 numbers	288	194	360	320-250	402	280
19. Electric Lamps (G.L.S.)	"	23,000	15,000	32,500	30,000	36,000	27,000
20. Dry batteries	Million numbers	285	137	310	320	225	161
21. Storage Batteries	Number	445820	200000	538420	400000	290100	258086
22. Radio receiver (organised sector)	000 Number	77	49	380	350	213	132
D. Chemical & Allied Industries;							
23. Fertilizers	000						
i. Nitrogenous (in terms of fixed nitrogen)	Tons	16	9	96	90	85	77
ii. Phosphate (P_2O_5)	"	21	9	35	30	35	20
24. Heavy Chemicals							
i. Sulphuric acid	000 Tons	150	99	221	200	242	170

(Continued)

Table 1 (continued)

1	2	3	4	5	6	7	8
ii. Soda ash	000 Tons	54	45	86	78	90	80
iii. Caustic Soda	"	19	11	37	33	44	36
25. Coal carbonisation and processing of by-products							
i. Motor benzol	Million gallons	-	-	-	-	2.4	1.0
ii. Coal-tar distillation (tar distilled)	Tons	-	-	-	-	75,000	56,100
26. Dyestuffs and intermediates Dystuffs	Million lbs	-	-	-	-	6.6	4.0
27. Drugs and Pharmaceuticals							
i. Sulpha drugs	000 lbs	-	-	400	400	990	N.A.
ii. Penicillin	Million Maganits	-	-	4.8	4.8	12.5	5.6
iii. D.D.T.	Tons	-	-	700	700	700	142 (1955)
iv. Benzene hexachla side	Tons	-	-	500	500	2,500	1,603 (1955)
v. Paraamino salicylic acid	Kilograms	-	-	48,900	48,900	36,320	N.A.
vi. Strephomylin	"	-	-	-	-	-	-
28. Starch & glucose							
i. Starch	Tons	-	-	-	-	77,600	47,000
ii. Glucose liquid	"	-	-	-	-	91,100	1,050
iii. Glucose Powder	"	-	-	-	-	26,000	Negligible
29. Plastics, synthetic moulding Powder	Tons	-	-	-	-	1,180	725
30. Paints and varnishes							
a. Ready mixed paints varnishes & enamels	Tons	65,000	29,000	70,000	60,000	65,000	39,000
b. Nitro-cellulose lacquers	Gallons	-	-	350000	3000000	800000	300000
31. Soap	000 Tons	265	106	280	200	340	200
32. Tanning & Footwear Leather Footwear	Million pairs	-	85	-	91	-	88.5

(continued)

Table 1 (continued)

1	2	3	4	5	6	7	8
33. Rubber manufacturs	000						
a. Automobile tyres	number	-	-	-	-	950	910
b. Bicycle Tyres	"	-	-	-	-	6,000	5,750
34. i. Paper & Paper Board	000 Tons	137	114	211	200	210	200
ii. Newsprint	Tons	-	-	30,000	27,000	30,000	4,200
35. Cement	000 Tons	3,280	2,692	5,306	4,800	4,937	4,600
36. Retractories	000 Tons	-	-	-	-	444	280
37. Glass & Glassware							
i. Sheet Glass	Tons	11,700	5,850	52,200	26,000)		
ii. Blown-ware and Pressed ware	"	201552	86100	237800	139500) to 142500)	291000	125000
38. Petroleum Products	Million tons of (crude Processed)	0.25	-	2.0	4.3	3.625	3.6
39. Power and Industrial alcohol							
i. Power alcohol	Million gallons	13	5	21	18	15	10)
ii. Industrial alcohol	"	13	3.5	3	2.0	12	.8)
[illegible]. Textile Industries							
40. Cotton							
i. Yarn	Million lbs	1,669	1,179	1,722	1,640	1,840	1,630(1955)
ii. Cloth							
a. Mill	Million yards	4,714	3,718	4,779	4,700	4,950	5,100
b. Handloom	"	-	810	-	1,700	-	1,480(1955)
41. Jute	000 Tons	1,200	892	1,200	1,200	1,200	1,150
42. Rayon & Staple fibre							
i. Rayon filament	Million lbs	4.0	0.4	22.0	22.0	22.3	15.7
ii. Staple fibre	"	-	-	11.2	11.2	16.0	13.2
iii. Chemical Pulp	Tons	-	-	11,500	-	-	-

(continued)

Table 1 (continued)

1	2	3	4	5	6	7	8
43. Woollen manufactures	Million Lbs	20.15	18.00	20.15	25.00	-	-
a. Wool tops	"	-	-	-	-	-	-
b. Woollen and worsted yarn	"	-	-	-	-	38	21.6
c. Woollen cloth	Million yards	-	-	-	-	48	14.9
F. Timber Industries							
44. Matches	Million Gross Boxes	35.3	29.1	38.3	25.3	35.3	32.0
45. Plywood							
i. Plywood Hachst	Million sq.ft.	)	45		) 100	)	90
ii. Commercial Pyned	"	139)	-	180to 190)	-	150.6)	20
G. Food Industries							
46. Salt	000 Mds	-	72,051	-	83,729	-	84,000
47. Sugar	000 Tons	1,540	1,120	1,550	1,500	1,740	1,820
48. Vegetable oils	"	N.A.	1,195	N.A.	1,299	N.A.	1,760
49. Vanaspati	"	333	153	389	300	445	270
50. Biscuits	Tons	-	-	-	-	33,750	11,765
Confectionary	"	-	-	-	-	40,600	7,840
51. Fruit & Vegetable preservation	"	-	-	-	-	-	20,000

A paper on "Capital Formation in India" supplied to the Panel of economists estimates net domestic capital formation in India, in the recent past as under :-

Table 2

Net Domestic Capital Formation in India

(Rs in crores)

	Net Domestic capital formation	National income	Net Domestic Capital formation % of National income
1948-49	446	8,580	5.2
1949-50	524	9,000	5.8
1950-51	589	9,500	6.2
1951-52	672	10,000	6.7
1952-53	659	9,800	6.7
1953-54	719	10,500	6.8

During the first three years of the First Plan, net National Capital Formation, as a percentage of National Income was more or less stationary, the increase in the national income being presumably absorbed in large part, partly by an income in the population and partly by an increase in consumption.

The statistics of the growth of National Income in certain overseas countries, quoted by the plan frame, show that in Canada, Switzerland and Germany the rate of growth in National income generally approximated to the rate of growth experienced in India during the First Five Year Plan. In U.S.A. the rate of growth was 4.5 percent until 1913 and 3 percent from 1929 to 1950. Both in per capita income and capacity to save we are

far behind these countries. In the Soviet Union, Poland, Czechoslavakia, Hungary and Bulgaria, the rate of growth in that time was stated to vary between 12 to 16 percent. If these statistics are comparable, the more rapid growth of communist economies reflects the relative efficiency of totalitarian devices.

The rate of increase in income would depend upon the bias of the plan for labour intensive schemes and for cottage industries.

Indian poverty and the massive rural under-employment are conceivably the result of continued short-fall of savings and investments (or rate of investment necessary to maintain per capita income undiminished in a growing labour force). The employment potential of the first five year plan has been estimated 9 to 9.5 million persons. This is roughtly equal to natural growth in the labour force during the period.

Table 3

Industrial Production Index

Base 1951 = 100

Year	Index	Increase in % in comparison to previous years
1952	103.6	+ 3.6
1953	105.6	+ 1.9
1954	112.9	+ 6.9
1955	122.4	+ 8.4
1956	132.6	+ 8.3

Despite the increase in industrial production in the Plan

period, it must be noted that overall investments and employment trends have been far from satisfactory. The Planning Commission admit that "the growth of employment opportunities in the plan period tended on the whole to lag behind the increase in the labour force," and that "the extent of the unemployed and underemployed in the economy as a whole is thus not likely to have diminished rooted structurally in the economy.

Heavy industry and specially heavy-machine making industry, has never been the "root and base" of economic growth. The basic of economic growth in the early phase of Industrialization was agriculture, trade and handicrafts. In all the great industrial powers except the U.S.S.R. and Japan, heavy industry grew on the basis of consumer goods industries, responding to their demand and adjusting itself to their needs. This refers not only to the United States, Great Britain and Germany but also to France, Italy, Canada and so on. The opposite course of development in Russia and Japan was due to exceptional historical conditions.

Our Policy of starting the growth process from the end of heavy industry has posed a dilemma, viz., while achievement of freedom from independence on imports in the basic aim of India's development, capacity to import is crucial to achievement of this aim. There are examples of countries where are both highly prosperous and industrialised without having had a capital goods industry of all kinds, of their own, and without, as a consequence having sacrificed their economic independence.

India will never become industrialized in the sense, or to the level of western countries, she will become industrialised, only to the extent she is able to release workers from agriculture, which, looking to our low land man ratio and the rate of population growth, can never exceed 50 percent of her total man-power. Industrialisation will not help to solve our food problem, except indirectly to a limited extent in so far as it can provide the materials needed for the development of agricultural productivity. After all we are led to two conclusions;

(i) that industrialisation is not the answer to the food problem;

(ii) industrialisation, in order to sustain itself, must be based overwhelmingly on the internal market.

The basic defect of Industrialisation are -

(i) High cost of production;

(ii) Over capitalization; and

(iii) Cost of efficiency factor.

The overall industrial growth rate in the First Five Year Plan was 38% and it was 60% in comparison to 1946 to 1956. The Industrial Policy played a constructive role for the development of industrial sector. Inspite of that position was far from satisfactory. In the first plan investment in industrial sector was only 6.7% of total outlay.

Industrial development of agriculture based industries was higher than capital goods industries. At last we can conclude that the first plan was a rudimentary plan for industrial development.

PART III

CHAPTER 7

OBJECTIVES OF SECOND PLAN

*Significant as the achievements of the First Five Year Plan have been, they have to be regarded as no more than a beginning. The task is not merely one of raising living standards, but of generating a dynamism in the economy which will lift it to continually higher levels of material well-being and of intellectual and cultural achievements. A raising standard of material welfare is not an end in itself; it is essentially a means to better and fuller life. A society which has to devote the bulk of its working hours to the production of the base wherewithal of life is to that extent limited in its pursuits of higher ends. Economic development is intended to expand the community's productive power and to provide the environment in which there is scope for the expression and application of diverse faculties and urges. It follows then that the pattern and lines of economic development must from the start be related to the basic objectives which the society has in view.

These basic objectives have been summed up in the phrase 'Socialistic Pattern of Society'. Essentially, this means that the primary criterion for determining the lines of advance must not be private profit but social gain and that the pattern of

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* Taken from the summary of IInd Plan, 1956, pp. 10 & 11.

development and the structure of socio-economic relations should be so planned that they result not only in appreciable increase in national income and employment but also in greater equality in incomes and wealth.

For creating such an environment, the State has to take on heavy responsibilities. The Public Sector has to expand rapidly. It has to play a derminant role in shaping the entire pattern of investment - both Private and Public - in the economy and has to mitiate developments which the private sector is unwilling or unable to undertake. The responsibility for new developments in certain major lines of activity which require the mean of modern technology, large scale production and a unified control and allocation of resources must be undertaken in the main by the State.

The socialistic pattern of society is not to be regarded as a set or rigid pattern. Each country has to develop according to its own genius and traditions but it is important to stress certain basic values and the institutional arrangements implied in them. The accent of the socialistic pattern is on the attainment of positive goals, the raising of living standards, the enlargement of opportunities for all the promotion of enterprise among the disadvantaged classes and the creation of a sense of partnership among all sections of the community. The socialist pattern is, one could say a more concretised expression of the directive principles of State Policy embodied in the constitution.

The essential objectives is to secure rapid advance along

democratic and egalitarian lines.

Within this broad approach, the Second Five Year Plan has been formulated with the following objectives in view:-

(i) a sizeable increase in national income so as to raise the level of living in the country;

(ii) rapid industrialisation with particular emphasis on the development of basic and heavy industries;

(iii) a large expansion of employment opportunities; and

(iv) reduction of inequalities in incomes and wealth and a more even distribution of economic power.

These objectives are interrelated and have to be pursued in a balance way.

CHAPTER 8

*INDUSTRIAL POLICY RESOLUTION

The Government of India set out in their Resolution dated the 6th April, 1948, the Policy which they proposed to pursue in the industrial field. The Resolution emphasised the importance to the economy of securing a continuous increase in production and its equitable distribution, and pointed out that the State must play a progressively active role in the development of industries. It laid down that besides arms and ammunition, atomic energy and railway transport, which would be the monopoly of the Central Government, the State would be exclusively responsible for the establishment of new undertakings in six basic industries - except where, in the National interest the State itself found it necessary to secure the co-operation of private enterpsize. The rest of industrial field was left open to private enterprize though it was made clear that the State would also progressively participate in this field.

The Constitution of India, in its preamble, has declared that it aims at securing for all its citizens -
"Justice, social, Economic and Political;
Liberty of thought, expression, belief, faith and worship;
Equality of status and of opportunity; and to promote among

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* Second Five Year Plan, p. 43.

them all;

Fraternity assuring the dignity of the individual and the unity of the nation."

These basic and general principles were given a more precise direction when parliament accepted in December, 1954, the socialist pattern of society as the objective of social and economic policy. Industrial policy, as other policies, must therefore be governed by these principle and directions. In order to realise this objective, it is essential to accelerate the rate of economic growth and to speed up industrialisation and, in particular, to develop heavy industries and machine making industries to expand the public sector, and to build up a large and growing co-operative sector. These provide the economic foundations for increasing opportunities for gainful employment and improving living standards and working conditions for the mass of the people. Equally it is urgent to reduce disparities in income and wealth which exist to day, to prevent private monopolies and the concentration of economic power in different fields in the hands of small numbers of individuals. Accordingly the State will progressively assume a predominant and direct responsibility for setting up a new industrial undertakings and for developing transport facilities. It will also undertake State trading on an increasing scale.

The adoption of the socialistic pattern of society as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic

importance, or in the nature of Public utility services, should be in the public sector. Other industries which are essential and require investment on a scale which only the state in present circumstances, could provide, have also to be in the public sector. The state has therefore to assume direct responsibility for the future development industries over a wider area. After considering all aspects of the problem, in consultation with the Planning Commission, the Government of India have decided to classify industries into three categories, having regard to the part which the state would play in each of them. These categories will inevitably overlap to some extent and too great a rigidity might defeat the purpose in view. In the first category will be industries the future development of which will be the exclusive responsibility of the state. The second category will consist of industries which will be progressively State owned and in which the State will therefore generally take the initiative in establishing new undertakings, but in which private enterprise will also be expected to supplement the effort of the State. The third category will include all the remaining industries, and their future development will, in general, be left to the initiative and enterprize of the private sector.

Industries in the first category have been listed in Schedule A of this resolution. All new units in these industries, save where their establishment in the private sector has already been approved, will be set up only by the State. This does not preclude the expansion of the existing privately owned units, of the possibility of the State securing the co-operation of

private enterprize in the establishment of new units when the national interest so require. Railways and Air transport, arms and ammunition and atomic energy will however be developed as Central Government monopolies.

Industries in the Second Category will be those listed in Schedule B. With a view to accelerating their future development, the State will increasingly establish new undertakings in these industries. At the same time private enterprize will also have the opportunity to develop in this field, either on its own or with State participation.

All the remaining Industries will fall in the third category, and it is expected that their development will be undertaken ordinarily through an initiative and enterprize of the private sector, though it will be open to the State to start any industry even in this category.

Industrial undertakings in the private sector have necessarily to fit into the frame work of the social and economic policy of the State and will be subject to control and regulation in terms of the Industries (Development and Regulation) Act and other relevant legislation. The Government of India however, recognise that it would in general, be desirable to allow such undertaking to develop with as much freedom as possible, consistent with the targets and objectives of the national plan.

The division of Industries into separate category does not imply that they are being placed in water-tight compartments. Inevitably, there will not only be an area of overlapping but

also a great deal of dovetailing between industries in the private and public sectors. It will be open to the State to start any industry not included in Schedule A and Schedule B when one needs of planning so require or there are other important reasons for it. There will be ordinarily no bar to small privately owned units undertaking production, such as the making of launches and other light craft, generation of power for local needs and small scale mining. Further heavy industries in the Public Sector may obtain some of their requirements of lighter components from the private sector, while the private sector in turn would rely for many of its need on the Public Sector.

The Government of India would in this context stress the role of Cottage and Village and Small Scale Industries in the development of the National Economy. In relation to some of the problems that need urgent solutions, they offer some distinct advantages. They provide immediate large scale employment; they offer a method of insuring a more equitable distribution of the National income and they facilitate an effective mobilisation of resources of capital and skill which might otherwise remain unutilised. The State has been following a policy of supporting Cottage and Village and Small Scale Industries by restricting volume of production in the large Scale Sector by differential taxation, or by direct subsidies. While such measures will continue to be taken, whenever necessary, the aim of State policy will be to ensure that the decentralized sector acquires sufficient vitality to be self supporting and its development is integrated with that of large scale industry. The State will

therefore, concentrate on measures designed to improve the competitive strength of Small Scale producer.

In order that industrialisation may benefit the economy of the country as a whole, it is important that disparities in levels of development between different regions should be progressively reduced. The lack of industries in different parts of the country is very often determined by factors such as the availability of the necessary raw materials or other natural resources. A concentration of industries in certain areas has also been due to the ready availability of power, water supply and transport facilities which has been developed there. It is one of the aims of National Planning to ensure that these facilities are steadily made available to areas which are at present lagging behind industrially or where there is greater need for providing opportunities for employment, provided the location is otherwise suitable. This programme of industrial development will make large demands on the country's resources of technical and managerial personnel.

The Industrial Policy Resolution of 1948 dealt with a number of other subjects which have since been covered by suitable legislation or by authoritative statements of policy. The division of responsibility between the Central Government and the State Governments in regard to industries has been set out in the Industries (Development and Regulation) Act. For convenience of reference, the two schedules* are given below:-

SCHEDULE A

1. Arms and ammunition and allied items of defence equipment.

* Second Five Year Plan - Summary, 1956, pp. 14 & 15.

2. Atomic energy
3. Iron & Steel
4. Heavy castings and forgings of iron and steel
5. Heavy Plant and Machinery required for iron and steel production, for mining, for machine tool manufacture and for such other basic industries as may be specified by the Central Government.
6. Heavy electrical plant including large hydraulic and steam turbines
7. Coal and logmite
8. Mineral Oils.
9. Mining of iron ore, maganese ore, chrome ore, gypsum sulphur, gold and diamond
10. Mining and processing of copper, lead, Jinc, tin, molybedenum and walfram
11. Minerals specified in the schedule to the atomic energy (Control of production and use) order, 1953.
12. Air craft
13. Air Transport
14. Railway Transport
15. Shipbuilding
16. Telephones and Telephone Cables, Telegraph and Wireless Apparatus (exluding Radio receiving set)
17. Generation and distribution of electricity.

SCHEDULE B

1. All other minerals except "minor minerals" as defined in Section 3 of the Minerals Concession Rules, 1949.

2. Aluminium and other non ferrous metals not included in Schedule A.
3. Machine Tools.
4. Ferro-alloys and tool steels
5. Basic and intermediate products required by chemical industries such as the manufacture of drugs, dyestuffs and plastics
6. Antibiotics and other essential drugs
7. Fertilizers
8. Synthetic rubber
9. Carbonisation of coal
10. Chemical Pulp
11. Road Transport
12. Sea Transport

The development of industries in the rest of the field will be left to the initiative and entering of the private sector, although it is open to the State to enter any field as necessary.

CHAPTER 9

INDUSTRIAL PRODUCTION

*During 1955-56, the process of industrial growth gathered further momentum. This was reflected in a greater expansion in new and existing undertakings as well as in a further rise of industrial production, in both Public and Private Sectors. In the private sector, 164 licences for the establishment of new undertakings and 319 for expansion of existing undertakings were granted during 1955, under the (Industries Development and Regulation) Act, 1951. In 1955 aggregate industrial production recorded a rise of 8%.

**The rise of industrial production in 1958 registered a further slowing down over the previous year. For the year as a whole the average general index (base 1951 = 100) worked out to 139.4 representing an increase of only 1.5% as compared to 3.5% in 1957 and 8.3% in 1956. The decline in the pace of industrial growth could be attributed in past to continued shortage, during the greater part of the year, of essential raw materials and component parts due to restricted imports and in part to continued slackness in certain sectors, particularly cotton textiles. The indices for cotton cloth and cotton yarn fell by 7.2% and

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*   Report on Currency & Finance, 1955-56, p. 13.

**   Report on Currency & Finance, 1958-59, p. 14.

3.5% respectively in 1958. Sugar and Automobile also declined by 5% and 16% respectively. As against these substantial increases were recorded under several groups, notably 'general engineering' (4.8%) Chemical and Chemical Products (13%), Cement (8%), non ferrous metals (9%) and iron ore (23.8%).

A feature of industrial growth in 1958 was the steep rise recorded by some of the units in the Public Sector; thus the output of machine tools (value) rose sharply from 125.5 Lakhs to Rs 227.7 lakhs, Penicillin from 19.23 million mega units to 26.93 million mega units and insecticides (Delhi only) from 316.8 tons to 1130.4 tons. It is interesting to note that some of the new industries, which were established after 1951 and not included in the index, also recorded sharp increases. Mention may also be made here of the production during 1958 for the first time in this country, of goods like compounded electroplating salts, activated carbon, sodium perborate and heat treatment salts, heavy industrial sewing machines, mercury vapour lamps. PVR insulated aluminium cables and mica insulating bricks for steel projects.

The position of some important industries is noticed in some detail in the following paragraphs :

The output of cotton cloth, which in 1956 peak of 5,306 million yards, declined sharply to 4,927 million yards in 1958. The decline was due mainly to a fall in external demand. Other factors contributing to the slackness in this industry included higher cost of production, and outdated machinery and excess

labour force, and lack of proper assessment of consumer prefe-rence. A number of measures were taken by the authorities to rehabilitate the industry and these included - (1) substancial reduction in excise duty on cloth, (2) the removal, with effect from August 28, 1958 of piece-goods and manufactures (with certain exceptions) from the export licensing system, (3) Special export promotion scheme under which exporting mills were allowed to retain a stipulated percentage of export earnings for import of textile machinery and raw materials, (4) the permission to instal additional automatic looms upto 3,000 on condition that the entire production of such looms should be exported in addi-tion to 50% of the mills' export.

The production of Jute goods increased by 32,000 tons to 1,062,000 tons during 1958. But there was a sharp decline in exports from 860,100 tons in 1957 to 777,900 tons in 1958. The decline occurred entirely under sacking, owing to a decline in foreign demand, particularly from Australia and Egypt.

The production of Sugar, which to a high level of 20.08 lakh tons in 1956-57 in sugar season, declined slightly to 20.06 lakh tons in 1957-58 despite an increase in capacity. The decline was mainly due to large scale diversion of sugarcane to 'Khandsari' industry which until February 28, 1959 was exempted from excise duty.

The production of Steel declined from 1.35 million tons in 1957 to 1.30 million tons in 1958 due, partly strikes in two leading steel factories and partly to interruption to

normal production invitable in the process of modernisation. The Tata Iron Steel Co. has completed its modernisation programme. The Indian Iron & Steel Co. installed two blask furnaces, each with a capacity of 1,250 tons per day and its expansion programme is scheduled for completion by December 1959. In the public sector, the Steel expansion programme has been making satisfactory progress. The first blast furnaces for producing pig iron at Rourkela and Bhilai were opened in February 1959.

Production of Coal increased in 1958 at a lower rate. Production in 1958 at 45.3 million tons represented a rise of only 4% as compared to 10.3% in 1957. It may be recalled here that of the additional production of 22 million tons envisaged under the second plan, public sector was to contribute 12 million and the private sector 10 million tons. Expansion plans are well under way and a notable development was the opening, on March 14, 1959, of the Coke oven plant at Durgapur which was built with West Germany assistance.

Production of Chemical and Chemical Products showed an appreciable increase despite difficulties in regard to imports of capital equipment and raw materials. A feature was the start of production of several new products including compounded electroplating salts, activated carbon and sodium perborate. In the public sector the second D.D.T. factory at Alwaye went into production during the year of 1959 and the total production of urea and double salt was started at Sindri.

*After the above discussion in the long run, the rate of

* India's Poverty & Its Solution, by Charan Singh, Edition 1965, p. 283.

industrialization and the growth of National Economy would depend on the increasing production of coal, electricity, Iron and Steel, heavy machinery, heavy chemicals, and the heavy industrials generally which would increase the capacity for capital formation. The heavy industries must, therefore, be expanded with all possible speed, with a view to conform to the Government's declared objective of building "a socialistic pattern of society allocation to modern of heavy industry rose from 8% in first plan (1951-56) to 23% in the second plan (1956-1959)."

Speaking as an advocate of heavy Industry in the meeting of the All India Congress Committee held in Chandigarh on September 28, 1959, Prime Minister Nehru said :

The Primary thing about an integrated plan was production and not employment. Employment was important but it was utterly important in the content of production. It followed production and not preceded production. And production would go up only by better techniques which means modern methods.[1]

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1. Hindustan Times, New Delhi, September 29, 1959.

Table 1

* **All Products - Total**

(Rs Lakhs)

	1959	1961
Applied :		
1. Net Avail	539	436
2. Avail	1108	897
3. Invest	33525	56901
4. Import	25564	39984
Approved :		
1. Net Avail	336	258
2. Avail	698	422
3. Invest	15934	17797
4. Import	11835	12228
Deferred :		
1. Net Avail	73	81
2. Avail	192	139
3. Invest	11507	10672
4. Import	8535	7196

* Industrial Planning & Licensing Policy - Final Report Volume II, Part III - R.K. Hazari Report, p. 228.

The following table gives some idea of the trend of the development in Industry.

Table 2

Trend of Industrial Production[1]

1950-51 = 100

Group	1955-56	1960-61
General Index	139	194
Cotton Textiles	128	133
Iron & Steel	122	238
Machinery (all types)	192	503
Chemicals	179	288

The index number of industrial production recorded thus a cumulative rate of expansion of about 7% per annum. The first plan encouraged the already existing factories to use their capacity to the full and industrial production rose by 39%. During the second plan it was possible to develop new industries, especially capital and producer goods industries.

Progress Under the Plan : (The Industrial Economy of India by S.C. Kuchchal, pp. 56-57)

During the Second Plan, the total financial investment in industry has been estimated at Rs 1,570 crores. Shares of the private and public sector being Rs 850 crores and 720 crores

1. Business Organisation & Industrial Management - S.R. Davar, 12th Edition, p. 412.

respectively as against original estimate of Rs 1094 crores provided in the plan. Thus there has been an excess of about 30% over the original figure.

A large part of the excess expenditure (roughly 56.2%) is accounted for by the Iron & Steel expansion programmes which partly owing to a rise in prices, have cost considerably. The estimate for the three public sector steel projects is Rs 620 crores against original estimate in the Second Plan of Rs 425 crores. As against this excess expenditure, there are shortfalls in respect of Cement and Paper industries. Though there has been a excess of about 30% in the financial investment in the industry during the Second Plan over the original figure, it is felt only about 85% of the physical capacity proposed in the Second Plan materialised.

The most impressive achievement under the second plan is the setting up of the three steel plants of one million tons ingot capacity each in the Public Sector at Bhilai, Rourkela and Durgapur and the completion of the modernisation and expansion programmes in the Private Sector which added a further 1.5 million tons of ingot capacity. The investment on the Steel Plant Programmes, which amounted to about Rs 750 crores during 1956-1961, was about 2.5 times the combined new investment made by the Public & Private Sectors (about Rs 290 crores) on new industrial capacity under the First Plan.

<u>The Central Advisory Council</u>[1]: A Central Advisory Council

1. Indian Industries Development Management, ~~Times~~ & Organisation by Sharma & Chauhan, pp. 78-79.

was constituted with the Minister for Industry as the Chairman of the Council. The members of the Council are appointed by the Central Government and are representatives of Industry, labour, consumers and primary producers of the scheduled industries concerned. The functions of the Council are to advise the Central Government on matters connected with
(a) development and regulation of scheduled industries,
(b) the administration of the Act when called for, and
(c) also in the making of rules under the Act. At its meeting held in the year 1959-60, the Council discussed the economic situations in the country with special reference to Industrial Development and the draft outline of the Third Plan.

During the 1959-60 the Government with the assistance of the Council, framed under Sec. 30 of the Industries Development and Regulations Act the Industrial undertakings (collection of Information and Statistics) Rules 1959. Under these rules, Industrial units engaged in any of the scheduled industries and employing 10 or more workers but not more than 49 workers are required to submit production returns to the Directors of Industries of the State concerned who in turn sends a consolidated list of the return to the Ministry of Industry. The purpose in view is to have in possession complete statistical information about scheduled industries, both in large as well as the small scale sectors as an aid to proper assessment of the progress in the context of rising requirements.

The National Industrial Development Corporation[1]

This corporation was set up by the Government of India in

1. Reserve Bank of India Report on Currency & Finance, 1958-59, p. 48.

October 1954, for securing a balanced and integrated development of industries in the country in both the Public & Private Sectors - continued to concentrate its efforts mainly on the promotion and develoopment of the projects relating to (a) the manufacture of industrial machinery in the fields of heavy engineering and (b) some crucial industrial materials like raw film, aluminium and synthetic rubber and primary intermediates for the drug, dye stuff and plastic industries.

The Corporation also functions as a agency of the Government for the grants of loans to any industry which the Government desire to assist. Upto 30th June 1958 the Corporation had received applications for loans from Jute Mills involving Rs 8.41 crores of which 3.38 crores were sanctioned. Applications for loans from cotton mills aggregated Rs 27.43 crores of which Rs 3.05 crores were sanctioned. Upto March 1959, a sum of Rs 3.25 crores had been drawn by the Corporation.

A new scheme of financial assistance introduced by the Corporation in June 1959 with a view to speeding up the pace of modernisation of Jute & Cotton Mills through short term aid for installation of new machinery and for replacing old and worn out machinery.

CHAPTER 10

DEVELOPMENT OF SMALL SCALE INDUSTRIES

A notable development during the Second Plan was the establishment of a statutory Khadi and Village Industries Commission with more extensive executive powers than those enjoyed by the Khadi and Village Industries Board, which continued as an advisory body closely associated with the Commission. Further in almost in all the States, statutory State Khadi and Village Industries Boards were created under the legislation sponsered by the State Governments. Steps were also taken to strengthen State Departments of Industries. Thus a three-tier organisation was developed - The Ministry of Commerce and Industry at the Centre, All India Boards and State Departments of Industries and State Boards. In addition industries Officers were appointed at the district and Block levels. At the end of the Second Plan, extention officers for industries had been provided in more than 1650 development blocks out of 3110 blocks.[1]

In the Second Plan, the scale of assistance for all purposes was considerably enlarged, the total anticipated outlay being a little less than Rs 180 crores as against about Rs 43 crores in the

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1. Third Plan, pp. 427-28.

First Plan. A number of new programmes also organised. About sixty industrial estates were set up for providing factory accomodation and a number of common facilities for the promotion of Small Scale Industries.[1]

By 1959-60 the total number of Industrial Co-operatives increased about 29,000 including about 11,200 handloom weavers societies. On the whole however, Industrial Cooperatives did not cover more than a small proportion of these engaged in village and small industries. In 1958 a special group examined the difficulties impeding rapid progress in the formation industrial cooperatives and recommended measures for ensuring their accelerated development.[2]

The total disbursements for the programmes during the Second Plan period were a little over Rs 18 crores, of which the major portion was unaccounted for by assistance in the form of supply of improved equipment and training and marketing facilities for the processing of cereals and pulses, crushing of oil seeds, tanning and leather, palm gur, non-edible oils and soap, match, hand made paper, gur and Khandsari, bee-keeping, Pottery etc. Village industry programmes in the Second Plan have provided partial relief to about 5 lakhs artisans and under-employed women workers in villages.[3]

In the field of Small Scale Industries progress during the past five years has been quite impressive. Inspite of shortages

1. Third Plan, p. 429.
2. Third Plan, p. 429.
3. Third Plan, p. 430.

of certain basic raw materials, many small industries, notably machine tools, sewing machines, electric fans and motor cycles, builders hardware and hard tools have expanded considerably the increase in production being as much as 25 to 50% per annum. Import restrictions have to some extent give an impetus to the growth of industries.[1]

Industrial Co-operatives

Industrial Cooperative have had a large measures of success in handloom Industry in coir and certain village industries. However their expansion as a general movement has been impeded on account of various practical difficulties following the resolution of the Government of India on Industrial Co-operatives in November 1959.[2]

The oil industry provides another, if slightly different, example of the impact of the Industrial Policy Resolutions and the 'Socialist Pattern' on a programme of development. In the first resolution oil was not specifically mentioned, although presumably included among the minerals 'Scheduled for Central regulation & Control'. During the First Plan development was entirely in the private sector. New refining units were established at Trombay by Burmah-Shell and Standard Vacuum and at Vishaka Pattnam by Caltex, bringing total capacity upto an annual 4.3 million tons by 1957. By the industrial Policy

1. Third Five Year Plan, p. 431.
2. Third Five Year Plan, p. 212.

Resolution of 1956, however oil became a 'Schedule A' Industry, i.e., one whose future development was reserved, with various qualifications already noted to the State.[1]

During the Second Plan, therefore, State participation in the oil industry was steadily extended. A joint company, Oil India, in which the Government's share, originally are third, was subsequently raised to one half, undertook the exploitation of the resources of the Nahorkatiya Oil Field. To process the crude oil from this source, the construction of two new public sector refineries, at Gauhati in Assam and at Barauni in Bihar, was begun. For the distribution and marketing of oil products, a government agency named the Indian Oil Company was established in 1959.[2]

From the account given in previous pages, it will be seen that over the past five years country has made considerable progress in every branch of National life. Much has been achieved - much more than had seemed possible in 1958.

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1. The Process of Planning by A.H. Henson, p. 468.
2. Ibid., pp. 468-69.

CHAPTER 11

A CRITICAL ASSESSMENT OF THE PLAN

The second plan which put greater stress on industrialisation naturally required heavier expenditure of foreign exchange. The Second Plan report estimated the aggregate deficit in the balance of payments over the five years period at about Rs 1100 crores and assumed that about Rs 800 crores out of this would be met by external assistance. The plan ran, however, into unexpected balance of payments difficulties from the very start and had to be reappraised in 1958.[1]

In the light of the experience of the Second Plan, the problem of inflation was grossly underestimated, the financial difficulties rather airily brushed aside, the balance of payments situation given little serious consideration, the prospects for agriculture exaggerated, and the capital output ratio put for too low.[2]

[3]The following statistics shows the balance of payments position for the Second Plan Period (figures for 1960-61 are subject to revision).

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1. Third Five Year Plan, p. 34.
2. The process of Planning by A.H. Hanson, p. 127.
3. Third Five Year Plan, p. 108.

India's Balance of Payments : Second Plan

(₨ Crores)

Items	Total IInd Plan 1956-61
1. Exports	3053
2. Imports	5360
3. Trade Balance	2307
Financed by	
A. external assistance (including PL 480 and 665 assistance)	1406
B. I.M.F. Drawings (net)	55
C. Use of foreign exchange reserves	598

The balance of payments deficit over the five year period is estimated at about ₨ 2100 crores as compared to the plan estimate of ₨ 1100 crores.

Experience in the Second Plan, has shown that the rate of growth in agricultural production is one of the main limiting factors, in the progress of the Indian economy.[1]

[2]The Second Plan has been characterised by a persistent upward trend in prices though, of course, part of the rise in prices was a corrective to the earlier decline. Over the five years' period, the rise in the general index of wholesale prices has been about 30% food articles as a group have gone up by some 27%, industrial raw materials by 45%, manufacturers by over 25%. It will be observed that the index for cereals which

1. Third Five Year Plan, p. 49.
2. Ibid., p. 121.

was below 100 in March, 1956 sharply over the next 3 years, pulses also showed a similar trend. The index for cereals which was back to 100 in March, 1961, that for pulses was 93%. It is the rise in other constituents of 'food articles' that accounts for the continued uptrend in the index for that group. Relative shortage of foodgrains was the major factor accounting for price rises in the early stages of the Second Plan.

The notable short falls in the attainment of physical targets were in respect of the production of iron and steel, fertilizers, newsprint, chemical pulps, soda, ash, dyestuffs, aluminium and cement. The output of industrial machinery was lower than was originally planned. In the case of iron and steel, the short fall deprived the economy of benefits reckoned upon for the start of the third plan. The short fall was not so much due to delays in insta-llation as in securing smooth and continuous operation of new capacity. Inadequacy of foreign exchange was also an important limiting factor in the case of steel and fertilizers. In respect of heavy machinery, mining machinery and foundry forge projects much difficulty had been felt in defining the scope of each project.

The performance of exports as against export targets (which were described a "little more than guesses and express-ions of hope") fixed under the Second Plan was not satisfactory.

During the course of Second Five Year Plan, serious com-plaints of delays in granting licence were made. The members of

export and import advisory councils and the Central Advisory Council were very critical in these days. To avoid these delays the Government appointed a Committee of Enquiry headed T. Swaminathan in September, 1963.[1]

Says W.S. Woytinsky in India : The Awakening Government:[2]

Heavy industry and specially heavy-machine making industry, has never been the 'root and base' of economic growth. The basis of economic growth in the early phase of industrialization was agriculture, Trade and handicrafts. In all the great industrial powers except the U.S.S.R. and Japan, heavy industries grew on the basis of consumer goods industries, responding to their demand and adjusting itself to their needs. This refers not only to the United States, Great Britain and Germany but also to France, Italy, Canada and so on. In both the countries U.S.S.R. and Japan heavy industry was pushed ahead as the basis of Military power rather than the foundation of further industrialization.

India's policy of starting the growth process from the end of heavy industry has posed a dilemma.

The progress achieved in the Second Plan has been described as the beginning of a vertiable industrial revolution which is sharply characterised by a broadening of the industrial base, infusion of latest skills and technology, the like of which had no parallel in our history.[3]

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1. Indian Industries - Development, Management, Finance and Organisation by Sharma & Chauhan, p. 81.
2. India's poverty & its solution- Charan Singh, pp. 284-285.
3. Industrial Economy of India, by S.C. Kuchchal, p. 57.

Fairly we can conclude that it has been experienced, stresses and strains; these are the growth pains of an economy struggling to find its way out of deep-rooted poverty and the economic stagnation of decades. In every direction new ground has been broken and valuable experience gained. After all Indian economy was still a very long way from "take off" stage and ominous signs abounded. Prices continued to rise alarmingly.

These were some of the problems that confronted India on the eve of the Third Five Year Plan. It remained to be seen whether the planners, in implementing it, would be able to avoid some of the mistakes which had narrated their performance during the years of 1956-1961.

PART IV

CHAPTER 12

OBJECTIVES OF THIRD PLAN[1]

In drawing up the Third Plan the principal aims have been the following (Here my main motive is only to see the Industrial Sector) -

(i) to secure an increase in national income of over 5% per annum, the pattern of investment being designed also to sutain this rate of growth during subsequent plan periods;

(ii) to expand basic industries like steel, chemicals industries, fuel and power and establish machine-building capacity, so that the requirements of further industrialisation can be met within a period of ten years or so mainly from the country's own resources;

(iii) to utilise to the fullest possible extent the manpower resources of the country and to ensure a substantial expansion in employment opportunities; and

(iv) to establish progressively greater equality of opportunity and to bring about reduction in disparities in income and wealth and a more even distribution of economic power.

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1. Approach to Third Five Year Plan, pp. 48 to 54.

The period of the Third Plan represents the first stage of a decade or more of intensive development leading to a self reliant and self generating economy. India's economy is now much larger in size and in the range of its operations and has become both more dynamic and more complex. In all directions there are large and growing demands to be met. Considerable investments have also to be made in projects and programmes whose output will be available only in the course of the Fourth Plan. Thus, the Third Plan will call for the maximum rate of investment that can be achieved.

In the scheme of development during the Third Plan the first priority necessarily belongs to agriculture. Experience in the first two plans, and especially in the Second Plan, has shown that the rate of growth in agricultural production is one of the main limiting factors in the progress of the Indian economy.

In the Third Plan, as in the Second, the development of basic industries such as steel, fuel and power and machine building and chemical industries is fundamental to rapid economic growth. These industries largely determine the pace at which the economy can become self reliant and self generating.

Programmes for industrial development have been drawn up from the point of view of the needs and priorities of the economy as a whole, the public and private sectors being

considered together. However, while the private sector will have a large contribution to make, the role of public sector in the development of the economy will become even more dominant. An expanding public sector engaged specially in developing basic industries, and producing large surpluses for development, be itself be one of the most important factors determining the rate at which the economy can grow. Moreover the Third Plan will carry further the present efforts to build up small industries as a vital segment in the industrial structure by promoting greater integration between large scale and Small Scale industries, spreading the benefits of industrialisation to small towns and rural areas and introducing improved techniques in the traditional rural industries.

It has been stated earlier, until the economy has been strengthened considerably, it is difficult to provide work at an adequate level of remuneration to the entire labour force. A two-fold approach has, therefore, to be adopted. In the first place, development programmes included in the plan have to be worked in such a way as to be yield the maximum employment of which they are capable. They have to be implemented in an integrated manner and adopted to the actual requirements of each area. Secondly, in many fields, where man-power can be used more intensively, development programmes under the plan can be speeded up and enlarged to extent necessary in the later stages of the plan. It is at present reckoned that development programmes in the plan may provide additional employment to the extent abcut

14 million as against the increase in the labour force during the third plan of about 17 million. The balance is proposed to be taken care of thorough large scale rural works programmes, village and small industries and other means.

In the Third Plan related sectors of industry, transport and power, during each phase of development, close co-ordination in planning and execution is essential not only for new projects but equally for achieving rising levels of production from the existing plants. The programme of industry, along with power, transport, scientific research and technical education, included in the Third Plan, is conceived of as a continuous and integrated whole. Every efforts has, therefore, to be made to initiate and complete within the shortest possible time schemes which will help to raise the potential for growth within the economy.

To a greater extent than in the past, during the Third Plan, the direction and management of the Indian economy will call for improved methods and machinery for planning and execution better statistical and economic intelligence, greater appreciation of technological and other developments occurring in different fields, fuller knowledge of the country's potential resources and generally for more systematic analysis and research. For every large programme and every major project or group of allied projects, there is need for careful evaluation of progress. This is being provided for under the Third Plan.

In the course of Third Plan, the nation set out to achieve

as much in five years as has been realised in the ten years of the First and the Second Plan. The task is large in magnitude, urgent and of great significance for the present and future.

CHAPTER 13

INDUSTRIAL POLICY AND PRODUCTION UNDER THE THIRD FIVE YEAR PLAN AND ANNUAL PLANS

Any discussion of Industrial Policy in India must naturally start with age old controversy regarding the reconciliation of the rival claims of agriculture and Industry. Both the Second and Third Plans have been guided by the principle of industry and minerals (including village and small industries) is to remain constant at 24% in the two plans. It is true that the proposed outlay on agriculture, community development and irrigation, which had fallen from 31% in the First Plan to 20% in the Second Plan, has improved to 23% under the Third Plan. But it is incorrect to state that in the scheme of development during the Third Plan the first priority necessarily belongs to agriculture.[1] In fact, if we exclude the current outlays, the investment pattern of the Third Plan would reveal even greater bias in favour of Industrial development. Out of a total anticipated investment (both Public and Private) of Rs 10,400 crores under the Third Plan, industry and mining account for Rs 2,995 crores, i.e., 29%. As against this, agriculture, community development and irrigation account for only Rs 2,110 crores i.e., 20% of the total investment.

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1. Third Five Year Plan, p. 49.

For the Third Plan, the Government did not consider it necessary to announce any fresh Industrial Policy. The Industrial Plan for the period 1961-66 has to be governed by "the over-riding need to lay the foundation for further rapid industrialisation over the next 15 years -- to press forward with the establishment of basic capital and producer goods industries with special emphasis on machine building programmes so that in the following periods the growth of the economy will become self-sustaining." There is a group of economists who disbelieve in the wisdom of chanalising our investments largely towards heavy industry. They have argued from time to time that the crying need of the hour is to provide the people with more of consumer goods per capita, so that they may develop an optimistic outlook towards the programmes of economic development in this country. While it is true that there is a good deal pessimism in the common man with regard to the prospects of improving his economic condition, the fault really lies not so much with the choice of technique as with the failure of the Government to fulfill its own promises and targets.[2]

The first aim of the Third Plan is to secure a rise in national income of over 5% per annum "the pattern of investment being designed also to sustain this rate of growth during subsequent plan periods." The same thing is reinforced by the third aim of the Third Plan viz., "to expand basic Industries like steel, fuel and power and establish machine building capacity

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2. The Third Five Year Plan and India's Economic Development, pp. 151-152.

so that the requirement of the further industrialisation can be met within a period of ten years or so mainly from the country's own resources." In the list of industrial priorities, the first place is assigned to the completion of projects which are under implementation or which were deferred during 1957-58 owing to foreign exchange difficulties. It is followed by the expansion and diversification of capacity of the heavy engineering and machine-building industries, fertilizers and petroleum products. The third place is assigned to the production of major basic raw materials like aluminium, mineral oils, basic chemicals and intermediates. The lowest priotity is assigned to essential drugs, paper, cloth, sugar, vegetable oils and housing materials.[1]

In terms of these stipulations, the production of finished steel is to be increased from 2.2 million tons in 1960-61 to 6.8 million tons in 1965-66, a rise of 209%. As against this the output rose during thex last ten years only by 120% (the production in 1950-51 being one million tons). The production of alloy, tool and special steels (finished) is to be increased from 40,000 tons in 1960-61 to 2,00,000 tons in 1965-66, a rise of 400%. The output of aluminium is to be stepped up from 18,500 tons in 1960-61 to 80,000 tons in 1965-66, a rise of 332%. Similarly in the case of machine tools (graded), the target for 1965-66 (Rs 3,000 lakhs) represents a rise of only 445% over the estimated output of 1960-61 (Rs 350 lakhs). Further in the case of cement, machinery, sugar machinery and industrial boilers, there was no

1. Third Five Year Plan and India's Economic Development, p. 153.

production in 1950-51 and in 1960-61, the production was estimated at ₨ 60 lakhs, ₨ 330 lakhs and ₨ 40 lakhs respectively. The target for 1965-66 (₨ 450 lakhs, 1,000 lakhs and ₨ 2,500 lakhs) represent a rise of 650%, 203% and 61,150% respectively.[1]

The rate of growth of industrial production during the Third Plan was as follows:

1961-62	7.0%
1962-63	7.7%
1963-64	8.5%
1964-65	7.0%
1965-66	9.0%

There was a sharp declination in the rate of growth in 1965-66. In fact the progress achieved in the industrial sector during the third plan was generally unsatisfactory and much more uneven than during the Second Plan.[2]

There was sharp deterioration in the rate of growth of output. It fell to 5.3% in 1965-66, 0.2% in 1966-67 and 0.5% in 1967-68. The decline in these years was mainly due to low rates of growth in textile and food industries on the one hand and metals and machinery industries on the other. In many of these industries, there was a fall in absolute output. Industrial production, however, showed a sharp recovery during 1968-69 with a rise of 6.2%. In many industries the capacity utilization has

1. Third Five Year Plan & India's Economic Development, pp. 153-54.
2. The Industrial Economy of India, by S.C. Kuchchal, p. 61.

considerably improved. Only in a few industries like machine tools and cables the production continues to remain at relatively unsatisfactory levels. The fuller utilization of capacity in these industries is very closely linked with the increasing tempo of investment.[1]

In spite of this rather uneven performance, significant achievements contributing towards the realization of diversified industrial structure were made during this period. Substantial capacity has been created in many new lines. A fairly sound base for future growth has been laid. Several of the large projects initiated at the commencement of the Third Plan have been completed and brought into production. In particular, in the field of heavy engineering and machine building industries the commencement of production of the different units in the Heavy Engineering Corporation, mining and Allied machinery Corporation and of heavy electrical projects has now made it possibly largely through indigenous effort, the expansion of further capacity in vital sectors like iron and steel mining and power generation. In the field of rail and road transport and communication, virtual self sufficiency for the supply of equipment and rolling stock has been realised. There has been appreciable increase in the production capacity of steel and non-ferrous metals. Progress has also been made in the expansion of capacity in petroleum, fertilizers and petrochemical industries.

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1. Fourth Five Year Plan, pp. 296-297.

Among industries in which Third Plan targets of capacity or production were fully or nearly realised by 1965-66 are aluminium, automobiles, electric transformers, cotton textile, machinery, machine tools, sugar, jute textiles, power driven pumps, diesel engines and petroleum products. On the other hand, in some of the important industries like steel and fertilizers there was considerable shortfalls in production. In the subsequent years there has been a step up in production in certain industries such as aluminium, fertilisers, heavy chemicals, cement and petroleum products. The Third Plan targets for steel and fertilisers were not realised even by 1968-69, the output of finished steel being 4.7 million tons in 1968-69 against the Third Plan target of 6.8 million tons and of nitrogenous fertilizers at about 541,000 tons against an expected 8,00,000 tons.[1]

In many industries such as steel, textile machinery, machine tools, commercial vehicles and fertilisers, the production levels in 1968-69 remained substantially below installed capacities.

Some Financial Institutions under the Plan :

Several Policy and Administrative measures were taken in response to the changing economic conditions. For Private Industry, the availability of industrial finance was stepped up and new financial institutions brought into existence. The Unit

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1. Fourth Five Year Plan, p. 298.

Trust of India was set up in July 1964 to channel the savings of middle and low income groups for investment in risk capital. In larger to provide financial assistance to new industries and coordinate the activities of the existing agencies our Industrial Development Bank (IDBI) was set up in July 1964. The refinance Corporation was amalgamated with it. A scheme for providing discounting facilities for the purchase of Plant and Machinery was instituted. With a view to relaxing controls and encouraging the growth of media industries, the exemption limit for obtaining a licence under the Industries (Development and Regulation) Act was raised in 1964 from Rs 10 lakhs to Rs 25 lakhs. Measures were taken to streamline and expedite the procedures of licencing import of raw material capital goods, issue of capital and approval of foreign collaboration agreements. A system of issue of letters of intent was introduced to signify Government's preliminary approval to the proposals in principle. After careful review a number of industries such as cement and paper, were exempted from licensing provisions of the Industries (Development and Regulation) Act. In order to provide the necessary flexibility in the operation of the industrial capacity, existing units were permitted to diversify or expand production upto 25% of the licensed capacity under certain conditions without being required to secure a licence. Relaxations were made from time to time in the control on prices and distribution of Industrial commodities. In 1963, 16 commodities were freed from price and distribution control. Subsequently, control on several other

industries, such as iron and steel, coal, fertilisers and commercial vehicles was relaxed. Sugar has been partially de-controlled. Price control on paper has been lifted. Control is still excersied with respect to some commodities like vanaspati, drugs and kerosene.[1]

A certain measures of dispersal of industries has been achieved, though much more effort is called for in this regard. Several of the Public Sector projects of this period, such as the heavy electrical projects at Hardwar and Ramchandrapuran and the instrument project at Kota, were established in regions which are industrially backward. Several State Governments took steps to establish industrial areas and provide basic facilities at suitable focal points in order to encourage the growth of industries on a wider scale. State Industrial Development Corporations were set up for promoting new schemes and participating in suitable private sector projects. Attempts were made to promote dispersal of industries by such measures as exemption from capital gains tax for industries moving out of metropolitan towns.

In considering the industrial policy to be followed for the future, note has to be taken of the present industrial situation by and large the channelisation of investible resources in desired directions through the various systems of licensing and control served a vital purpose in fostering industrial growth.

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1. Fourth Five Year Plan, pp. 299 & 301.

Over the years a wide and strong industrial base has been created in the country with an extensive range of production from sophisticated machinery and capital goods to consumer goods and intermediate products. Simultaneously there has been expansion in the facilities for consultancy and design. In any comprehensive system of licensing and control, there are certain inherent difficulties and shortcomings. In a wide range of industries where specific targets were laid down in the plans, it was not possible to ensure adequate phasing and to review them periodically for adjustments in the light of changing situations. As a result, capacity was in certain sectors created in excess of requirements resulting in avoidable investments. In certain other industries like fertilisers, the addition to capacity fell short of requirements. The bunching of licensing and inadequate implementation led to inbalances in some sectors of industry.[1]

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1. Fourth Five Year Plan, p. 302.

CHAPTER 14

VILLAGE AND SMALL INDUSTRIES[1]

In the Third Plan, the main objectives of the Small Industries programmes were to improve the productivity of the workers, to enlarge the availability of institutional finance, and to pay special attention to the growth of Small Industries in rural areas and small towns. The progress was encouraging the first two years of the third plan; then slowed down for various reasons including the shortage of raw materials following the hostilities of 1962 and 1965 and has recently shown signs of revival.

The growth of modern small scale industries has taken place largely over the last decade. Upto the end of 1968-69 about 1,40,000 small scale units had been registered with the State Industries Directorates, as compared to about 36,000 units at the beginning of 1962. Machines worth Rs 4.5 crores were supplied on hire purchase terms to these industries in 1968-69, as compared to about Rs 1.8 crores in 1960-61. The value of purchases by the Central Government Departments from Small Industries increased from Rs 6.5 crores in 1960-61 to about Rs 28.6 crores in 1968-69. Over the period of 1961 to 1969, the number of industrial co-operatives including handloom, handicrafts, and

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1. Fourth Five Year Plan, pp. 284 to 287.

processing societies, increased from about 37,000 to about 51,000 membership from 2.92 million to 3.88 million and sales from Rs 111.9 crores to Rs 331.9 crores.

Apart from quantitative growth there has been significant improvement in the quality of the products of many small scale industries. This is reflected in the increased variety of items produced to the standards and specifications prescribed by the defence services, railways and several large scale industries. A number of Small Scale Units supply parts and components to Large Scale Industries engaged in the manufacture of machine tools, bicles, automobiles, coach building and other railway component and electronics and electrical appliances and machinery. Products of some of these industries are exported. Production of a number of new items, parts and components requiring high technology and precession has been successfully undertaken in the Small Scale Sector. Some of them were being imported till recently.

Industrial Estates - About 346 industrial estates had been completed by the end of March 1969 as compared to 66 estates in 1960-61. Of about 8670 sheds provided, about 6600 sheds had been occupied. The small units set up in these estates provided employment to about 82,700 persons. These annual production amounted to Rs 99.25 crores. The programme generally was a success in urban areas. However, a large number of industrial estates started in rural and semi-urban areas languished owing mainly

to unsuitable location, lack of integrated planning and marketing facilities and shortage of raw materials. By the end of 1969, 125 cooperative societies had been registered for establishment of Co-operative Industrial Estates.

Handloom & Power Looms - On account of the adoption of various measures to assist the handloom industry, including the reservation for it of certain lines of production and special measures to encourage co-operatives, substancial progress had been made in the rehabilitation of industry. The production in this sector was 2013 million metres in 1960, 3056 million metres in 1965 and 3530 million metres in 1968. As a share in the total production of cloth, this represents 30.4% for 1960, 40% for 1965 and 44.7% for 1968. The number of handlooms in the Cooperative Sectors increased from 1.32 million in 1960-61 to 1.41 million in 1966-67 and the number of power-looms from about 1,45,000 to 2,17,000.

Khadi & Village Industry - Against the programme of introducing 3,00,000 Ambar Charkhas during the Third Plan, only 13,534 Charkhas were distributed in the first two years. There is no significant increase in the number of Ambar Charkhas in subsequent years. The Khadi and Village industries Commission did not introduce more Amber Charkhas mainly because it was engaged in designing and developing an improved model of the Charkha. Total production of all varieties of Khadi, including Woollen and Silk, increased from 53.76 million sq. meters in 1960-61 to 84.85 million sq. metres in 1965-66, but declined to 66 million sq. meters in 1968-69. As regards village industries, production and employment

data are available only in respect of the centres assisted by the Khadi and Village industries commission. Information regarding some industries is shown in the following table.

Table 1

Item	Unit	1960-61	1965-66	1968-69
1	2	3	4	5
1. Hard Pounding of Paddy	Thousand Tons	57.7	42.0	78.4
2. Village Oil	" "	59.6	50.1	38.4
3. Gur and Khandsari	" "	123.0	248.8	204.3
4. Palm gur	" "	78.2	94.1	N.A.
5. Village Leather	Rs Crores	0.36	2.69	4.65
6. Non edible oil & Soap	Tons	2256	5813	7860
7. Hand Made Paper	Tons	1272	1960	2788

N.A. = Not Available.

The centres of all industries assisted by the Khadi and Village Industries Commission provided full time employment to 1,72,400 and part-time to 7,02,600 workers in 1965-66 as against 1,18,300 and 4,46,100 workers respectively in 1960-61. During 1968-69 the figures of full time and part time employment were 80,000 and 7,37,000 respectively.

Handicrafts - The total gross output and value added by manufacture of handicrafts in 1966 were estimated at Rs 317 crores and Rs 173 crores respectively as compared to Rs 253 crores and Rs 138 crores in 1960-61. The sales through Public emporia

increased from ₹ 2.7 crores in 1960-61 to ₹ 3.5 crores in 1965-66 and further to about ₹ 4.0 crores in 1968-69. The exports increased from ₹ 19.34 crores in 1961-62 to ₹ 40.41 crores in 1966-67 and to nearly ₹ 76.5 crores in 1968-69. The board composition of experts for 1968-69 was precious, semi-precious and synthetic stones and Jwellery (₹ 47.2 crores); carpets and druggesser (₹ 11.1 crores); and craft such as art metalware and hard printed textiles (₹ 18.2 crores)

<u>Rural Industries Projects</u> - A centrally sponsored scheme for rural industries projects was taken up in 1962-63. To start with, 45 areas were selected in the States and some Union Territories, each covering 3 to 5 Development blocks with a population of 300 to 500 thousand, for intensive development of Small Industries in rural areas. Later on four more areas, near large scale projects of Durgapur, Bhillai, Bhadrawati and Ranchi were added in 1965. The progress made so far in these projects varies considerably from one area to another. On the whole of 45 areas which were selected initially, progress in about one third of these has been encouraging.

CHAPTER 15

CRITICAL ASSESSMENT OF THE PLANS

The decline in industrial growth after 1964-65 is attributable to several factors of which the most important were the series of dislocations caused by the hostilities in 1965 and two successive droughts. Many industries were severally affected by the shortage of raw materials and components arising from the pause in external aid in 1965. Although aid was subsequently resumed and the import policy for raw materials liberalised after devaluation, new factors intervened, creating problems of a different character. The two bad agricultural years led to considerable decline in savings, investments and purchasing power. Agricultural raw materials for industrial production were in short supply. On the other hand, as a result of the completion of projects already initiated, there were significant additions to capacity. This increase in capacity at a time when domestic demand was at a subdue level accentuated the problem of utilized capacity in many industries and more particularly in the capital goods industries. In spite of the comparatively easy availability of imported raw materials at that stage, depressed demand prevented full exploitation of industrial potential.[1]

1. Fourth Five Year Plan, p. 296.

The basic factors which made industrial performance sluggish were : (i) shortage of foreign exchange, (ii) wever flow of licences resulting in stop go policy, (iii) conflict with China and Pakistan, and (iv) the unprecedented drought and failute in agriculture. The crisis in agriculture affected industry in more ways than once. It resulted in shortages of supply for their main raw materials such as cotton, jute, maize and so on. At the second stage, the drought meant lack of buying power in the rural population which meant lower demand of consumer for industrial products resulting in accumulation of stocks. There was, therefore, a slump in the engineering industry as a whole because the slack in consumer goods industries was reflected in few orders for the units making capital goods and equipment for them. The capital market also remained sluggish almost throughout the third plan period and new industrial issues did not get much support in the climate of uncertainty and rising prices. The public response to the issues was unsatisfactory. As a result, entrepreneurs suffered from a handicap as they could not get finances to start new enterprises.[1]

In the case of certain other industries, the targets for 1965-66 are disappointing. Thus the cutput of cement is to be raised by only 53% during the Third Plan as against a rise of 215% during the last ten years. The installed capacity of electric power is to be increased by only 123% during the Third Plan as against a rise of 148% during the first and second plan.

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1. Industrial Economy of India by Kuchchal, p. 64.

However the output of coal is to be raised by 76% over the next five years as against an achievement of 69% during the last ten years. But again, the output of diesel engines (stationary) is to be increased by only 65% as against a rise of 627% during the last decade. The production of steam locomotives would actually fall during the Third Plan, although this anticipated decline has been concealed by giving the aggregate figure of five years production (1,175 locomotives, as against the annual estimate of 295 stear locomotives for 1960-61).[1]

Important point about the present position in regard to industrial development is that which neither industrial statistics nor lists of industrial products can adequately convey. A large number of undertakings have taken up entirely new lines of production, outside the traditional set up and as a result, many new articles hitherto not produced in the country, or coming out factories. Among the new items, production of which commenced in the Third Plan, mention may be made of hydraulic presses, gear cutting machines, Time Pieces, watches, radio-valves, compressors, field cameras, potassium, transistors and diodes, permanent magnets, microscope slides, tyre cord yarn, heavy water and number of new chemical products. This trend of development is completely changing the pattern of the country's industrial economy from one of the colonial type to one of the most modern and technologically progressive type.[2]

1. The Third Five Year Plan and India's Economic Growth, pp. 154-55.
2. Industrial Economy by Kuchchal, p. 64.

Many agreements are being concluded on an unprecedented scale for financial as well as technical collaboration and the collaborators include British, America, West Germany, Italian, Swedish, Norwegian, French and Japanese concerns. Important instances of Joint Indo-British Industrial enterprises cover the production of engineering equipment, electric wires and cables, Sanitary ware, safety fuses and explosives. Collaboration with U.S. undertakings is represented in the production of pharmaceutical and chemical products, drugs and chemicals, synthetic rubber and carbon black. West German enterprises have collaborated in the production of refractories, cables and electric meters. Japanese collaboration covers glass, rayon and hardboards.

Perhaps the biggest drawback of the Industrial Policy under the Third Plan relates to the failure on the part of the State to give adequate attention to the development of entrepreneurial ability. Only one major instance will be enough to support this change. The National Industrial Development Corporation was established in 1954 with its accent on "enterprise" whether private or public. One could have expected this Corporation to embark on a large scale programme of industrial promotions, handing over "daughter" companies to private Industrialists at suitable moments. One could have expected this institution to undertake programmes of Industrial training also, to procure foreign collaboration (both financial and technical) to prepare project reports and to remove the various difficulties which tend to thwart rapid industrialisation in under-developed areas. But little success has been achieved by that organisation as a

Development Corporation. In its relation to private sector, it has virtually reduced itself to a finance corporation. Finance, no doubt, is a very important determinant of 'industrial development'.[1]

India with sustained efforts over the next few years, can successfully break out of the shackles of a predominantly agrarian economy and put herself on the high road to modern industrial progress. The progress attained during the three plans shows that the country has the capacity to make such an effort. There should be unity of purpose between Government and industrial class. We can hardly afford to waste our time and energy on the fruitless controversy, regarding the role of private and public sectors. In the present stage of our economy there is not only clear need for public sector in certain spheres of industry but also an immense field for private enterprise.

The country has still to go a long a way to build an industrial structure to safeguard its security and territorial integrity. We are having industrial production which moves at a pace like 5% to 6% per year.

If the economy is to be prepared for shocks like the one we experienced in October 1962 and October 1965, we would accelerate the pace of industrial expansion.

But in my opinion our planners seem to be so much obsessed

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1. Third Five Year Plan and India's Economic Growth, p. 156.

with financial data that they have paid little heed to the development of human personality, entrepreneurial ability and managerial efficiency, without which industrial progress can never be based on a solid foundation.

PART V

FOURTH PLAN

CHAPTER 16

GENERAL APPROACH TO FOURTH PLAN[1]

The Fourth Plan has to provide the next forward in attaining accepted aims and objectives of the Indian Planning. In formulating it, note has to be taken of the success and failure so far, the observed continuing trends in the economy and the specific experience of recent years. The most notable lesson is that the current tempo of economic activity is insufficient to provide productive employment to all, extend the base of Social Services and significant improvement in living standards of the people. The continuity of even this moderate rate of growth is likely to be threatened if instability emerges because of the weakness on the food front and too great a dependence on foreign aid. The Fourth Plan aims at acceleration of the tempo of development in conditions of stability and reduced uncertainties. It is proposed to introduce safeguards against the fluctuations of agricultural production as well as the uncertainties of foreign aid in the period of the Fourth Plan.

The outlays on the Plan are proposed to be closely related to the possibility of raising resources in a non-inlfationary way. National self-reliance and growth with stability can be attained only if additional effort is put forward at every level.

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1. Fourth Five Year Plan (1969 to 1974), p. 13.

Dependence on foreign aid will be greatly reduced in course of the Fourth Plan. It is planned to do away with concessional imports of foodgrains under PL 480. Foreign aid net of debt changes and interest payments will be reduced to about half by the end of the Fourth Plan compared to the current level. A sustained increase of exprts by about 7% a year is another essential element of strategy in the Fourth Plan to secure balance on foreign account and approach speedily towards the goal of self reliance.

These measures which seek to limit the extent of foreign aid and to avoid inflationary financing have influenced the total investment outlays proposed in the Plan. The resource position having improved it is possible to increase investment in Public Sector industrial activity, although the outlays will still be modest. It is hoped however, that even with these outlays the tempo of economic activity will be stepped up significantly in the initial years of the Plan. If the performance is better, the Plan outlays in later years could be larger than provided for now. Successes depends essentially on the extent of internal effort made in saving and investment and on the operational efficiency and economic discipline displayed by official and non-official agencies and establishments. In this context special attention needs to be paid to the Public Sector, where investment is expected to reach 60% of the total.

<u>Social Justice and Equality</u> - The process of development might lead, in the absence of purposive intervention by the State

to greater concentration of wealth and income, overgrowth of metropolitan centres and uneven regional development, technological unemployment and rural underemployment. Therefore, the attainment of objectives of equality and Social Justice requires more comprehensive planning and greater command of government over resources than has been attempted so far. Preventing increase in concentration of economic power is part of this problem. Action under monopolies Act, Government's powers of licensing and allocation judicially used, and purposeful policies of public financial institutions and the nationalised banks are expected to play a significant role in this regard. The largest corporate groups are the most advantageously placed to seek and obtain foreign collaboration and to expand of to initiate a number of large and new activities. Therefore, acting through them may appear the easiest and quickest way of industrial development. In the process there is inevitably an increase in concentration of economic power. Government have formulated the new licensing Policy to control and regulate the concentration of economic power.

Income Disparities - To some extent income disparities can be reduced through fiscal measures aiming at reduction of income at the top levels; but for us it is important to lay far greater stress on positive steps for ameliorating the conditions of poorer people through planned economic development. In a rich country greater eqaulity could be achieved in part by transfer of income through fiscal, pricing and other policies. No significant results can be achieved through such measures in a poor

country, where whatever surpluses can be mobilised from the higher incomes of richer classes are needed for investment in the economy to lay the basis for larger consumption in the future. We have to reach the social and economic objectives through more rapid growth of the economy, greater diffusion of enterprise and of the ownership of the means of production, increasing productivity of the weaker units and widening opportunities of productive work and employment to the common man and particularly the less privileged sections of society.

<u>Weaker Producers</u> - It is only the adaption of this approach to area and activity development that can enable the common man throughout the country to participate in and benefit from the growth of the economy. This by itself will, however, not suffice to meet the needs of the less privileged or the weaker sections or of those who have an adequate productive base. These classes are composed of a large variety of categories whose problems and requirements are widely different.

<u>Correction of Regional Imbalances</u> - The problem of imbalance in development as between States is highly complex. Differences in development between State and State arise out of variations in activity in the three sectors - Cooperative, Private and Public Development of the Cooperative Sector is related to the strength and coverage of cooperative in the State. The internal resources of the co-operatives depend on this factor, it is even more important in the cooperatives obtaining financial assistance

from national financial institutions such as RBI, The Agricultural Refinance Corporation of the LIC. Private Sector activity depends on the extent of entrepreneurship within the State and the resources commanded by it and on the infrastructure and other developments within the state conducive to development of such activity. Public Sector outlays are provided for programmes of building up the infrastructure of conservation and development of natural resources and for direct entry of the state in industrial or other productive activity.

Balanced regional development and dispersal of economic activity are closely interrelated. Growth and diversification of economic activity in an underdeveloped area can take place only if the infrastructure required for this is provided in an adequate measure and programmes for conservation and development of natural resources undertaken. Within a State, development planning has to satisfy these primary needs of each region or area. Proper attention must be paid to development of Agricultural production. An important aim of Industrial Development of must be to meet local demand through local processing and utilization of locally available material. Diffusion of industrial activity will be facilitated by the rural electrification programmes on which large outlays are proposed.

<u>Regulation of the Economic System</u> - It is an important concern of national policies that all strategic economic decisions are made by agencies informed with a social purpose. Emphasis on

dispersal of enterprise and the clear statement that expansion of the Public Sector should not mean centralisation of decision making is designed to improve efficiency of operation. Decentralised decision making is also a value in itself. In the rural sector the extension of co-operative activity could lead to the desired combination of social purpose and decentralised decision making. In modern industry the important general allocatory controls that exist today relate to the licensing of imports and to long term finance through Public Financial Institutions. The nationalisation of banking should lead to major decisions being informed with social purpose over the whole sphere of organised institutional credit. Outside of credit and productive activity the major sphere is training and storage. The Plan makes substantial provision for increasing storage capacity into the hands of Public agencies. In trade the main sensitive areas are those of the allocation of scares imported commodities. It is proposed to establish substantial control of Public agencies over these sensitive areas during the Plan period.

Modern large scale Industry is subject to some specific price and allocation controls and to general capital issue and licensing controls. In some measure these derive from an earlier situation of considerable general and specific scarecities. Conditions have recently improved in two important directions. Firstly, the larger and more assured supply of foodgrains and the long-term policy of food management are expected to remove one source of anxiety and with other steps to ensure stability of

Prices. Secondly, there is now much greater availability within the country of Plant, machinery and other equipment needed to establish new Industrial enterprises. To these considerations has to be added the experience that the existing industrial structure has led generally to a high level of costs and that the present system does not appear to have prevented concentration. In some cases industry has been inappropriately sited and some desirable adjustments in regional locations have not taken place. Having regard to the fact that the legislation on monopolies and restrictive trade practices and regulation of credit through the Nationalised banks will curb tendencies to corner essential supplies, that production in the basic and strategic sectors will be fully planned and that trading in sensitive areas will be in the hands of Public agencies, a relaxation of the existing controls appears desirable and is, therefore, proposed. It should encourage fully responsible decision making on the part of entrepreneurs. Fixation of targets, licensing and some price and allocation controls seem to have affected the care with which entrepreneurs should weigh the long-term prospects of their investment decision.

Secondly, it should introduce an element of competitiveness in the economy which would keep up cost consciousness. Sheltered conditions created, in part, by the operation of existing controls appear to have reduced cost consciousness among entrepreneurs.

<u>Public Sector Operation</u> - Reference may be made to Policy in relation to the operation of Public Sector entreprises. This is

linked with action proposed in two separate directions. First is in the direction of much greater co-ordination and integration. Though investment in the Public Sector do not act sufficiently in concert, it is suggested that this defect be removed by creating appropriate machinery for effective co-ordination, when this happens the plans of individual units will become more purposeful and their operations efficient. Secondly it should be effectively decentralised. This is specifically stated objective of Government Policy which has yet to be attained.

A matter of crucial significance will be the emergence of the Public Sector as a whole as the dominant and effective area of the economy. This will enable it to take charge more and more of the commanding heights in the production and distribution of basic and consumer goods.

Size of the Plan and Patter of Outlay[1]:

A total outlay of Rs 24,882 crores is envisaged for the Fourth Plan. Of the aggregate outlay, Rs 1,5Ø,902 crores is in respect of the Public Sector Plan and Rs 8,980 crores for the Private Sector. In the Public Sector Rs 13,655 crores have been provided for investment and Rs 2,247 crores for current outlay. The total Investment for the creation of Productive assets aggregates to Rs 22,635 crores. Below Table indicates the distribution of the Public and Private Sector outlays by major heads of development.

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1. Fourth Five Year Plan, p. 52.

Table 1

*Fourth Plan Outlay and Investment : Public & Private Sector

(Rs in crores)

Heads of Development	Total outlay	Current outlay	Public sector investment	Private sector investment	Total investment	Total outlay
Industry and Minerals	3,338	40	3,298	2,000	5,298	5,338
Village and Small Industries	293	107	186	560	746	863
Transport and communications	3,227	40	3,197	920	4,117	4,157
Labour Welfare and craftsmen Training	40	20	20	-	20	40
Inventoris	-	-	-	1,600	1,600	1,600
Power	2,448	-	2,448	75	2,523	2,523

* I have given only industrial sector outlay.

The estimates of development outlays do not include most of the expenditures by local bodies out of their own resources on development schemes. Expenditure over the maintenance of developmental services and institution establish during the earlier Plans as well as the annual Plan Years (1966-69) will be provided for in the normal budgets and does not form part of Plan outlay.

Programme in the Fourth Five Year Plan[1]:

At the time of Fourth Plan was formulated, the economy was recovering from a period of recession and there was considerable

1. Draft Fifth Five Year Plan 1974-1979, Vol. II, p. 131.

under utilised capacity in the Industrial Sector, particularly in the capital goods and engineering industries. The main emphasis was, therefore, on reversing the trend in the earlier years and on accelerating Industrial growth. It was envisaged that a better utilisation of existing capacities would lead to higher production in the gearly years of Plan. Additions to production during the later period was to arise from new capacity to be created during the Plan.

The bulk of the Public Sector Investment was proposed for Industries like steel, non-ferrous metals, fertilizers, Petrochemicals, Petroleum and Iron ore development. In other industries inclusive of Cement, Paper, Sugar, Industrial machinery and light engineering, substantial contribution was expected to be made by the Private Sector.

Consistent with new approach to industrial planning, specific targets were laid down only for the core industries, while for Øther selected industries the Plan merely provided indicative targets of Production, leaving a measure flexibility. A set of policies for achieving the Plan objectives were also outlined.

CHAPTER 17

INDUSTRIAL LICENSING POLICY UNDER THE PLAN

The Planning Commission in July 1966 requested Prof. R.K. Hazari of the University of Bombay to conduct a study so as to review the operation of the Industrial Licensing System over the various two plan periods, including orderly phasing of licensing with reference to targets of capacity with a view to suggesting where and in what direction modifications might be made in the Licensing Policy. Prof. Hazari submitted an Interim report in December 1966.[1] One of his conclusion was that large and medium sized Business Groups enjoyed a higher ratio of approval in Licensing applications as compared to others and that their share in the investment applied for and approved had tended to rise over the period. This was specially true about certain business houses, the most important of which according to him was the House of Birlas. On this report there was debate in Rajya Sabha in May 1967 during which the Minister of Industrial Development made an announcement that Government would appoint a committee to go into the basic questions regarding the functioning of the Licensing System and any advantages obtained through it by some of the larger Industrial Houses.[2]

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1. Hazari, R.K.: Interim Report to Planning Committee - "Industrial Planning & Licensing Policy".
2. Rajya Sabha Debates, Vol. LX, Nos. 1-8, 22nd May - 1st June 1967. P. 1591.

Appointment of the Industrial Licensing Policy Inquiry Committee[1]:

In pursuance of this assurance, our Committee came to be appointed on 22nd July 1967, as an "Unexpert Committee to enquire into the working of the Industrial Licensing System during the past ten years."

Prof. M.S. Thacker, Member, Planning Commission, New Delhi was its chairman. But Prof. M.S. Thacker, Chairman of the Committee, resigned on 22nd April 1968. Shri Subimal Dutta who was appointed to succeed him as Chairman, joined the Committee on 4th May, 1968. The terms of the Reference of the Committee were set out as follows;

(i) To enquire into the working of the Industrial Licensing System in the last ten years with a view to ascertaining whether the larger Industrial Houses have, in fact, secured undue advantages over other applicants in the matter of issue of such licenses; and if they have received a disproportionately large share of such licences, whether there was sufficient justification for this;

(ii) to assess to what extent the licences issued to the larger Industrial Houses have been actually implemented and whether the failure to do so has resulted in pre-ruption of capacity and the shutting out of other entrepreneurs;

(iii) to examine to what extent the licences issued have been in consonance with the Policy of the Government as laid down in the Industrial Policy Resolution of 30th April 1956, particularly in regard to the regional dispersal of Industries, the growth of

1. Report on Industrial Licensing Policy Enquiry Committee, July 1969, p. 4.

Small Scale and medium Industries and the policy of Import substitution.

The Committee will also inquire whether, and if so how far, the Policies followed by specialised financial Institutions such as Industrial Finance Corporation and the Industrial Credit and Investment Corporation of India in advancing loans to industries have resulted in any undue preference being given to the larger Industrial Houses.

The Committee was expected to submit its report to Government within six months of its constitution but its term was extended from time to time.

In view of the nature of the enquiry entrusted to the Committee, Government conferred on the Committee powers under the Commission of Inquiry Act, 1952 on 31st August 1967. The Committee was originally called the "Expert Committee on Industrial Licensing". Subsequently it was designated as the "<u>Industrial Licensing Policy Inquiry Committee</u>."

The Terms of Reference of the Committee covered two important instruments, namely Licensing and Financial assistance through which the development of Private Sector Industry could be regulated and assisted. Although the Committee had been specifically asked to examine the extent to which special benefits had been obtained by larger industrial houses through the working of the Licensing System and the Policies followed by the specialised financial institutions, in effect we had to examine how far government had operated these instruments effectively in

pursuance of the objectives outlined in the Industrial Policy Resolution of 1956.

Progress of Work - As already mentioned, the Committee's First Chairman resigned after about nine months. The members of the Committee held the first meeting about two weeks after their appointment and authorised one among them to act as Member Secretary till a Secretary was appointed. The Committee was not given any accomodation till almost the end of October 1967, and as this was in a new building, it had to set up the whole office a new including provision of furniture and telephones. Financial sanction for the Committee's expenditure was received only on the 1st December 1967, and the staff sanction came gradually.

A Public announcement was made inviting comments and suggestions for the consideration of the Committee. Informal discussions were held with Industrial and Commercial bodies in different parts of the country and also with key personnel connected with the Licensing System. Since June 1968, the Committee would work more systematically. It may be mentioned that the Committee met nine times between August 1967 and April 1968, and thirty times between May 1968 and May 1969.

Large Industrial Houses - Three out of the four terms of the reference of the Committee referred to larger Industrial Houses. A larger Industrial House, however, was no where clearly defined and one of the first tasks undertaken by us was regarding the

definition of this term. We enquired of the Department of Company Affairs whether they had a list of larger industrial Houses and their respective composition. We were informed that but for the Monopolies Inquiry Commission (MIC) composition of business groups, they had not compiled any other list of Industrial Houses.

<u>The Concept of Large Industrial Houses</u>[1]:

The Concept of 'Large Industrial House' should be treated as broadly similar to the concept of 'Business Group' as defined by the Monopolies Inquiry Commission, that is to say, in making of the group or House, we should "ascertain the substance of the control" and not adhere to the deeming provisions about the same management or the same group as in the Companies Act. The House should include those business concerns over which a common authority holds sway. These business entities, though separate for legal or Taxation purposes, function in Unision as parts of a common organisation under the overall guidance, direction and support of a closely Knit group of Persons, while the day to day affairs of the concerns are independently carried on by those with whom the authority rests under proper legal sanction, the ultimate source regulating over all Policies can be traced to a common authority. There may be wide variations in the nature and extent of authority excercised, but there is definite evidence about the guidance, control and support from the common authority.

1. Report of the Industrial Licensing Policy Enquiry Committee, 1969, p. 12.

We decided on the following criteria for determining the composition of an Industrial House :

I - Concerns admitted by the House through the replies received by the Committee from the apex companies.

II- (a) concerns mentioned as forming part of the House in the souvenirs of other Publications of the House.

(b) concerns functioning as Managing Agents / Secretaries and Treasurers which are wholly or substantially owned by the controlling authority in the House along with relatives.

(c) companies managed by (I) and (II) (a) and (b), above, in their capacity as Managing Agents / Secretaries and Treasurers.

(d) companies deemed to be under the 'Same Management' under Section 370 of the Companies Act, 1957 as the Companies at (I) and (II) (a) to (c) above.

(e) Subsidiaries (other than those incorporated outside India) of Companies at (I) and (II) (a) to (d) above.

III - Companies wherein not less than one third 'effective equity' can be clearly identified as House Interest.

IV - Concerns found to have special characteristics which would warrant their inclusion under a House. The special characteristics may be such as majority on the Board of Directors being comprised of persons closely affiliated with the House, substancial equity shareholding being owned by the employees of the House, sole selling agency arrangements and services like office premises and telephone facilities.

On the basis of our studies, we give at the end of the Para the names of the 73 Large Industrial Houses.

Table 1

73 Industrial Houses[1]

Industrial House	No. of concerns comprised in the	
	House	Second Tier
1	2	3
Larger Industrial Houses		
1. A.C.C.	5	1
2. Andrew Yule	43	-
3. Bangur	93	-
4. Bird Heilgers	76	-
5. Birla	203	73
6. Goenka	69	-
7. I.C.I.	6	-
8. J.K. (Singhania)	47	4
9. Kilachand	24	-
10. Killick	17	-
11. Mafat Lal	34	-
12. Martin Burn	24	-
13. Shahu Jain	29	-
14. Sarabhai	29	-
15. Scindia	8	-
16. Sri Ram	36	-
17. Soorajmull Nagarmull	104	18

(continued)

1. Report of the Industrial Licensing Policy Inquiry Committee, 1969. p. 18.

Table 1 (continued)

1	2	3
18. Tata	70	6
19. Thaper	59	14
20. Walchand	29	4
Large Industrial Houses		
21. A. & F. Harvey	18	1
22. Agrawala, Ram Kumar	40	-
23. Amin	13	-
24. BIC	13	-
25. B.N. Alias	5	-
26. Bajaj	22	2
27. Bamer Lawrie	10	-
28. Chinai	18	-
29. Dalmia, R.K.	11	-
30. Dalmia, J.	18	-
31. Finlay	6	-
32. Gillanders Arbuthnot	33	-
33. Indra Singh	12	-
34. J.P. Srivastava	16	-
35. Jaipuria	18	-
36. Jardine Henderson	28	-
37. Jatia, G.D.	15	-
38. Kamani	27	-
39. Kanoria, B.	13	-
40. Kanoria, R.K.	20	-
41. Kasturbhai Lalbhai	36	-

(continued)

Table 1 (continued)

1	2	3
42. Khatau	49	1
43. Kirloskar	21	1
44. Kothari, D.C.	16	4
45. Macneill and Barry Binny	49	-
46. Mahindra & Mahindra	18	1
47. Mangal Das Jeysinghbhai	14	1
48. Mangal Das Parekh	18	-
49. Modi	12	-
50. Muruguppa Chittiar-Tube Investment	10	-
51. Muthiah	11	-
52. Naidu, G.V.	17	-
53. Naidu, V.R.	11	-
54. Nowrosjee Wadia	10	4
55. Parry	10	1
56. Peirce Leslie	24	-
57. Podar	20	-
58. Rallis	11	3
59. Ruia	17	7
60. Seshasayee	13	-
61. Shapoorji Pallonji	28	1
62. Shaw Wallace	25	1
63. Shriyans Prasad Jain	14	-
64. Simpson	29	1
65. Swedish Match	4	-
66. T.V. Sundaram Iyengar	21	1

(continued)

Table 1 (continued)

1	2	3
67. Talukdar Law	13	-
68. Thackersey	28	1
69. Thiagaraja	34	-
70. Turner Morrison	9	-
71. V. Rama Krishna	11	-
72. Vissanji	10	-
73. Wallace	11	1

Conditions Attached to Licences - The issue of an Industrial licence is usually subject to certain conditions. The two conditions common to all licences are relating to the 'effective steps' and implementation. Time limits are prescribed for both. The term 'effective steps' is defined in the rules as meaning one or more of the following:

(a) that 60% or more of the capital issued for an Industrial undertaking which is a public company within the meaning of the Indian Companies Act 1913 (VII of 1913) has been paid-up;

(b) that a substantial part of the factory building has been constructed.

(c) that a firm order has been placed for a substantial part of the Plant and Machinery required for the undertaking.

It would be relevant to mention that though it was specifically brought out in the Second Five Year Plan that a better definition of the 'effective steps' should be evolved, no steps to bring about the improvement were taken. The term 'implementation

of a licence' is not defined either in the Act or in the Rules. But in view of the conditions attached to the licences that the installed capacity shall not exceed the licensed capacity, a licence is taken to have been implemented, if the licensee has installed Machinery and equipment, the rated capacity of which is not less than the licensed capacity. It should be noted however, that no criteria relating to actual production has been insisted upon in examining the implementation status of a licence.

Implementation and Presumption[1]:

The Second Term of reference of the Committee runs as follows:

> "To assess to what extent the licences issued to larger Industrial Houses have been actually implemented; and whether the failure to do so has resulted in pre-emption of capacity and shutting out of other entrepreneurs."

In this reference we are required to answer two questions namely - (i) to what extent the licences issued to the larger Industrial Houses have been actually implemented; and (ii) whether the failure to do so has resulted in the pre-emption of capacity and the shutting out of other entrepreneurs.

Meaning of Actually implemented - While dealing with the first question it is necessary to clarify the meaning of "actually implemented" in reference to the Licensing system. At the time of issue of Industrial Licences, a time limit during which a Licensee should take "effective Steps". Usually a period of 6 months is provided for this purpose. The obligation of the Licensee under the

1. Report of the Industrial Licensing Policy Enquiry Committee, 1969, p. 77.

requirement of "effective steps" is to fulfill one of the following: (i) ensure that 60% of the capital issued for the undertaking has been paid-up; or (ii) construct substantial part of the buildings; or (iii) place firm order for substantial part of the Machinery required for implementation of the Licences. The expression substantial part has not been defined in the IDRA or in the Rules. It appears that usually it is interpreted as exceeding 50%. Though in the case of substantial expansion, substantial part is taken to mean 10%. In addition to report on 'effective steps' before the expiry of the six months the Licensee is also required, under Rule 19, to submit 'G' Return bi-annually till "such time as the Industrial undertaking commences production."

The obligation to file 'G' Return on the part of a Licensee continued only till he declares commencement of production. The fact of having reached the stage of 'commencement of production', however, does not mean that the licensed capacity has been established or the production was any way near the level of licensed capacity. The 'G' Return does not show how production compares with the Licenced capacity. Production can only be known from the Production returns filed separately by each industrial undertaking. If "actual implementation" is taken to mean production, then the production of all the Licensed units over the ten year period would have to be examined. Obtaining this information would involve an extensive survey of the Industrial Sector.

In the end the recommendations about the refashioning of Industrial Licensing to make it more purposeful and effective, the reorientation and reorganisation of Public Financial Institutions

and the development of the 'Joint Sector' all stand together and are aimed at attaining the basic National objective of growth and equality. Moreover, their effectiveness depends a great deal upon other complementary steps, most important among them being the laying down of specific guidelines on Industrial Policy, the refashioning of Planning so as to ensure the formulation of detailed Industry plans for the Core Sector, the strengthening and streamlining of Licensing and financing organisations and building up their personnel, the adoption of appropriate fiscal and other devices and the constitution of a Monopolies commission. The improvements recommended by committee will not yield adequate results unless Government implements the various reforms in policies, organisation and procedures as parts of an integrated approach to Industrial Policy and Planning.

CHAPTER 18

SALIENT ASPECTS OF THE NEW INDUSTRIAL LICENSING POLICY[1]

The Government of India have, in the recent past announced certain major changes in the Industrial Licensing Policy. These have been notified in two notifications both dated 19th Feburary 1970, a third notification dated 28th February 1970, and fourth notification dated 6th April 1970 and a fifth notification dated 18th July 1970. Here we outline the important aspects of the new Industrial Licensing Policy as announced by Government.

The main changes in licensing policy are outlined below:-

I - Raising of Exemption Limit from Rs 25 lakhs to Rs 1 crore

According to the Policy in force prior to these changes, all industrial undertakings engaged in scheduled industries, with fixed assets in land, building, plant and machinery not exceeding Rs 25 lakhs were exempted from the licensing provisions of the Industries (Development and Regulation) Act, 1951, except for those engaged in a few specified industries, namely coal, textiles, processed on powerlooms, roller, flour milling, oil seeds crushing, vanaspati, leather and matches.

1. Industrial Licensing Policy, p. 1.

Under the new Licensing Policy, the general exemption limit has been raised from Rs 25 lakhs to Rs 1 crore but this relaxation will not be available for the following categories of undertakings:

(i) those belonging to or controlled by the larger Industrial Houses; or

(ii) a company with foreign equity holding in excess of 50%; or

(iii) 'dominant undertakings' as defined in the monopolies and restrictive Trade Practices Act, 1969; or

(iv) those relating to an industry failing in the Core Sector or reserved for the Small Scale Sector; or

(v) those which require more than the equivalent of Rs 10 lakhs or more than 10% of the value of the increase in fixed assets in land, buildings, Plant and Machinery by way of foreign exchange for import of machinery and equipment, whichever is less, or may ordinarily require foreign exchange except marginally for import of law materials, component and the like. Requirements of foreign exchange except marginally for import of components will be considered as marginal if the undertaking does not require imported components beyond three years after commencement of production. The quantum of component imports, if any, during the first three years will be regulated in accordance with the phased manufacturing programme as approved by the Director General of Technical Development (DGTD) or other Technical Authority as the case may be. As regards raw material, the requirements will be considered marginal if imported raw material does not exceed 3% of the ex-factory value

of production of the item of manufacture of which the raw materials are to be used or Rs 3 lakhs whichever is less.

II - Registration Procedure -

Government have also simplified the registration procedure for such of the Industrial Units as are not required to obtain a licence under the Industries (Development and Regulation) Act, 1951, so as to make meaningful the relaxations under the liberalised licensing policy. In future, the registration of such Industrial Units with the Central Technical authorities will, as a rule, be automatic and is intended primarily for statistical purposes. As in the past, registration will not involve the payment of any fee.

It has also been clarified that registration with Director General of Technical Development etc., will not imply any commitment on the part of Government for release of foreign exchange either for import of capital goods or for raw materials and components or for providing any other facilities to the applicant firm. Nor will registration necessarily imply the acceptance or recognition by Government of any of the facts stated in the Application.

III - The new concept of 'Core' Sector and of the 'Heavy Investment' Sector :

(a) Core Sector -

In the light of the production gaps that have to be closed in the course of the Fourth Plan, a list of core industries consisting

of basic, critical and strategic industries has been drawn up and published. Detailed development plans will be prepared for these industries, and essential imports and foreign exchange will be made available for these industries on a priority basis. Except for industries reserved for the public sector under the Industrial Policy Resolution, 1956, the Core industries will be open for Investment to the private sector, including the Larger Industrial Houses and the foreign subsidiaries.

(b) Heavy Investment Sector -

In addition to the Core Sector, all new investment propositions exceeding Rs 5 crores will be treated as falling in the Heavy Investment Sector. The Heavy Investment Sector will, subject to the reservation for the Public Sector under the Industrial Policy Resolution, 1956, also be open to the Larger Industrial Houses and foreign subsidiaries.

IV - Substantial Expansion of Existing Undertakings :

Existing licensed or registered undertakings having fixed assets not exceeding Rs 5 crores will also be exempted from the licensing provisions of the Industries (Development and Regulation) Act 1951 for substantial expansion of the industrial undertaking provided the aggregate value of the substantial expansion, whether in one stage or more than one stage, does not exceed Rs 1 crore, subject to the same conditions as given above in respect of the general relaxation of licensing provision.

V - Diversification -

According to the Policy in force prior to 18th July, 1970 which was first announced in October 1966, Industrial undertakings registered or licensed under the Act had the freedom to diversify their production by taking up manufacture of 'new articles' without obtaining a licence under the Act provided that :

(i) the new article is not one of the items reserved for the Public Sector, i.e., fields covered by Schedule A of the Industrial Policy Resolution or any of the specified industries which have been reserved for the Small Scale Industries;

(ii) no additional Plan and Machinery is installed other than minor balancing equipment procured indigenously;

(iii) no additional expenditure of foreign exchange is involved except for import of raw materials for manufacture of 'new articles' falling within the priorty group of industries i.e., industries for which liberal import of Raw materials are allowed;

(iv) diversified production does not exceed 25% of the licensed or registered capacity of value; and

(v) the new article or articles to be produced or manufactured do not include such items as are banned for industrial licensing whether for establishment of new industrial undertakings or for expansion of existing industrial undertakings and require additional imported raw materials or searce indigenous raw material.

VI - Small Scale Sector -

The Policy of reservation for the Small Scale Sector (involving investment in Machinery and equipment upto Rs 750,000) will be continued. Further addition has been made to the list of Industries reserved for the Small-Scale Sector.

VII - Co-operative Sector -

In the matter of licensing new agro industries, particularly, the processing of sugarcane and jute and other agricultural commodities, preference will be given to applicants from the co-operative sector.

VIII - Industrywise Exemption from Licensing Provisions -

The complete relaxation earlier given from the Licensing provisions of the Industries (Development & Regulation) Act, 1951, in respect of 41 specified industries has now been withdrawn, consequent on the general relaxations mentioned earlier. In other words, instead of the industry-wise approach, an approach based on the quantum of investment has been adapted for delicensing purposes. Henceforth licences will now also be required in respect of these 41 industries, except to the extent that this is not required under the general relaxations.

It has however, been pointed out that many of the Industries which were earlier delicensed and which have now been brought under licensing again could be set up without an Industrial licence, as the order of investment involved in such industries may not ordinarily exceed Rs 1 crore.

IX - Foreign Exchange for Raw Materials Components -

As regards qualifying for the exemption in respect of foreign exchange requirements for raw materials, components and the like, it has been clarified that a unit will be eligible for exemption if the following conditions are satisfied :

(i) if the undertaking does not require import of components beyond 3 years from the date of commencement of production. The quantum of component imports, if any, during the first three years will be regulated in accordance with the phased manufacturing programme as approved by DGTD or other technical authority as the case may be;

(ii) The value of imported raw materials does not, in any one year, exceed 3% of the ex-factory value of production of the item in the manufacture of which the raw materials are to be used or Rs 3 lakhs, whichever is less. For the purpose of this percentage or the ceiling of Rs 3 lakhs, the requirements of steel and aluminium to be imported will be excluded, as it is expected that the shortage of supply of these materials indigenous origin will be of short-term duration.

X - Discontinuance of 'Banned' Lists for Licensing -

The concept of a 'banned' list is applicable only in the Licensing Sector and not in the delicensed sector. In the past, in respect of the Licensing Sector, 'banned' lists were published annually, identifying the Industries in respect of which license

applications would ordinarily be rejected without reference to the licensing committee. These lists normally comprised of (a) items reserved for the Small Scale Sector and (b) items for which adequate capacity had already been licensed. The reservation in respect of the Small Scale Sector has now been separately provided for in the notifications issued. It has also been decided to disperse with such lists from the "capacity" angle as an experimental measure. As in the middle sector, involving investment between Rs 1 crores and Rs 5 crores, licensing will be on a liberal basis, except for Industrial undertakings belonging to the Larger Houses, foreign subsidiaries or dominant undertakings. This implies that undertakings other than those mentioned above will enjoy considerable freedom in the establishment of new industries, except for those Industries reserved for Small Scale Sector or the Public Sector or those falling in the Core Sector. It has however, been indicated that Government will watch the situation as it develops and will, through appropriate action, discourage the undue flow of resources into the establishment of manufacturing capacity for non-essential or luxury goods or into industries which would exert undue pressure on supplies of relatively scarce raw materials, components etc.

XI - Export Oriented Industries -

In respect of export oriented units, applications for industrial licences and other clearances will be accorded the highest priority by Government. In considering and dealing with applications for industrial licences regard will be had to the

creation of capacities in such manner that export supplies are generated. Export Potential of undertakings belonging to the small and middle sector entrepreneurs will be developed to the maximum possible extent. Special attention will be paid to the development of export production of Small-Scale Sector Units in respect of items specifically reserved for them.

Under the Policy for export-oriented industries, undertakings belonging to or controlled by the larger Industrial Houses and foreign concerns, which are expected according to the new licensing policy to participate mainly in the core and heavy investment sectors, would be able to establish undertakings or expand production in areas other than in these sectors provided they undertake specific export commitments. The minimum export obligation in such cases will be 60% or more of the new or additional production which should be achieved within a period of three years.

XII - Items Reserved For Public Sector -

It has been announced that Government wish to expand the role of the Public Sector. Items in Schedule 'A' of the Industrial Policy Resolution will continue to be reserved for the Public Sector, and it will not be open to the private sector to set up a manufacturing unit for any of the items mentioned therein without a license.

Increase in Production :

In accordance with the Government announcement made in October, 1966 Industrial undertaking could increase the production of articles for which they were licensed or registered upto 25% of

the capacity so licensed or registered without obtaining a substantial expansion licence provided that certain conditions were fulfilled viz., (i) no additional Plant and Machinery is installed except minor balancing equipment procured indigenously and (ii) no additional expenditure of foreign exchange is involved and the extra production does not occasion any additional demand for scarce raw materials. The Government have classified that the facility to increase the production of the article or articles for which an Industrial undertaking is licensed or registered upto 25% of the capacity licensed or registered will continue.

Under the new policy, undertakings belonging to the Larger Industrial Houses and foreign subsidiaries will be expected, along with other applicants to participate in, and contribute to the establishment of industries in the 'core' and 'heavy Investment' secotors and the export-oriented sector, leaving the opportunities in the remaining sectors primarily to the other classes of entrepreneurs. It has also been indicated that in the middle sector involving investments ranging from Rs 1 crore to Rs 5 crores, Licence applications of parties other than undertakings belonging to the Larger Industrial Houses, foreign subsidiaries and dominant undertaking will be given special consideration and licences will ordinarily be issued liberally except where foreign exchange implications necessitate careful scrutiny. Licence applications from undertakings belonging to or controlled by the larger Industrial Houses and foreign subsidiaries, outside the Core and Heavy Industries Sectors will, however, be considered for normal expansion where such expansion is necessary to develop to a minimum economic

level which would ensure greater cost efficiency.

It is Government's expectation that the new licensing Policy will ensure greater freedom and opportunity for entrepreneurs, particularly for the small and medium groups and for the newer industrialists and that it would bring about an accelerated rate of Industrial growth and of promotion of exports. Government also expect a more effective and wider participation of the Small Scale Sector and the Public Sector in this accelerated Industrial Development.

CHAPTER 19

VILLAGE AND SMALL INDUSTRIES[1]

The Village and Small Industries Sector covers a wide range of traditional and modern small Scale Industries including hand-loom, Khadi, Powerloom, Sericulture, Coir, handicarafts, Village industries and mechanised Small Scale Industries (with a capital investment not exceeding Rs 7.5 lakhs in Plant and Machinery and 10 Lakhs in case of ancillary units manufacturing Parts and Components). These Industries with varying levels of investment, technology, Scales of Production and forms of organisation, have an important role to play in the context of some of the major tasks to be achieved in the Fifth Plan including the removal of poverty, a reduction in the disparities in income and the wealth and regional imbalances. The sector has a definite Potential for providing increasingly larger employment opportunities with a relatively smaller capital investment. Establishment of these industries also involves a comparatively shorter gestation period. The product of these Industries are capable of meeting a substantial part of the essential and other requirements of the masses and also for earning larger foreign exchange through exports.

Review of Progress

Lack of adequate and upto date statistical data about small

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1. Draft Fifth Five Year Plan, 1969 to 1974, p. 160.

Industries continues to be a serious handicap for reviewing the progress of the sector in the Fourth Plan period. However, from the available data the progress made by a number of these industries has been rapid in terms of the creation of larger opportunities for fuller and additional part time and full time employment and also in the increase in the number of units, range of production and value of exports. However, the Pace of growth of most industries continued to be uneven in different States and Union Territories. Besides, progress has also not been upto expectations in realising certain other objectives envisaged in the Fourth Plan including the progressive improvement of silk and production techniques, promotion of these industries in semi urban and rural areas and the rapid development of agro-based and ancillary industries. Nevertheless the overall picture of the progress made so far contains not only these disconcerting features, but also several significantly healthy and encouraging trends of development.

More important problems which stood in the way of the full achievement of some of the aims of the development programmes for different Small industries including Industrial Co-operatives, were the shortage of certain raw materials and the inadequacy of statistical data credit facilities, industrial extention services and marketing facilities. To an extent, short term solution of some of these problems are somewhat difficult owing largely to the unorganised and widely dispursed nature of these industries, specially the traditional and rural industries. They were also delayed in the formulation and sanction of the schemes at the centre and in the States and in organising and strengthening

institutional and other arrangements for providing assistance and facilities in various forms of these Industries. Moreover the shortfalls in production of a number of large industries which supply raw materials to and purchase their requirements of parts and components from small industries, followed by the recent shortage of power, also adversely affected the production of a good number of small industries, including the handloom industry and ancillary units.

In order to overcome these problems, a number of Policy and other measures have been taken over the last few years. These measures include a progressive increase in the allocations of imported and indigenous raw materials in short supply, the control on production and prices of yarn required by weavers, reservation of additional items for exclusive development in the small sector, the provision of concessional finance and investment and transport subsidies for the promotion of industries in selected backward areas, surveys of industrial co-operatives, launching of special schemes for assisting educated and technically qualified persons to set up small units, and an increase in the tempo of developmental activities at the centre and in the States. These measures, coupled with the inherent dynamism of the sector, appear to be the main contributing factors accounting for certain distinct healthy and encouraging trends of development. There is evidence to confirm a growing dependence of small artisans and entrepreneurs including technically qualified persons on institutional finance. There is also an encouraging response to the incentives offered for the promotion of industries in selected backward areas. The pace of the

utilisation of plan outlays for enlarging the promotional activities has also picked up at the Centre and in several States and Union Territories.

The main aims of the development programme for Small Scale industries in the Fourth Plan were fuller utilization of capacity, rapid growth of ancillaries and the modernisation of selected industries in the semi-urban and backward areas, evolution of appropriate technology and assistance to technically qualified persons to set up industries. Some of these aims, as mentioned earlier, have not been achieved to a significant extent. However, it is gratifying that the tempo of growth of these industries in number and range of production has generally been maintained over the last decade. The number of units registered on voluntary basis with the Industries Directorates of the States and Union Territories increased from nearly 2 Lakhs in 1969 to about 3.18 lakhs in 1972, when the total employment in these units was estimated to be at 41.4 lakhs persons. A further list of 77 items was added to those reserved for exclusive development in the Small Scale Sector continued to compete successfully with large Scale Units. Although the allocations of scarce Raw materials have been progressively enhanced to a substantial extent, a number of Small Scale Industries continued to experience difficulties in obtaining their full requirements.

There was a substantial increase in the flow of institutional credit for these industries. The credit guarantee scheme, administered by the RBI was further extended and liberalised. A total of

183 credit institutions including all the major Commercial and Co-operative banks and the State financial Corporations, had joined the scheme upto the end of 1972. The State Bank of India and most of the major banks initiated special schemes for providing credit to technically qualified entrepreneurs on liberal terms. The terms for the supply of machinery on hire-purchase basis by the National Small Industries Corporation were liberalised in June 1970, Training Courses in Industrial entrepreneurship for technically qualified persons were started by the small Industries Service Institutes and certain other organisations.

The value of purchases from small industries by the Directorate General of supplies and Disposals rose from about Rs 30 crores in 1968-69 to about Rs 86 crores in 1971-72. Consolidated guidelines were issued to public sector enterprises for encouraging and co-ordinating the development of ancillary units. These are estimated to be about 150 ancillary units, established around Public Sector Undertakings and the total purchases from them by the Public Undertakings amounted to about Rs 8 crores during 1970-71.

<u>Industrial Estates</u> - In pursuance of the aims of the programme for Industrial Estates envisaged in the Fourth Plan, most States concentrated efforts on consolidating the position of the estates already completed and ensuring the essential facilities in those under construction. As a result, there was considerable improvement in the programme as indicated in Table 1.

Table 1

Progress of Industrial Estates

No. of Estates completed	March 1969	March 1972
Functioning	285	401
Not Functioning	104	164
No. of Shades		
Constructed	8,670	10,840
Functioning	5,110	7,070

During the period under review, the annual production of the Units in the estates is estimated to have increased by about Rs 127 crores and employment by 23,350. The number of non-functioning shades in the estates set up in the rural and semi-urban areas continued to be very high, due largely to their unsuitable location. In the urban areas, a number of new schemes were also taken up for establishment of Industrial areas and developed sites.

Khadi, Village, Handloom and Powerloom Industries : The Fourth Plan envisaged that additional production of traditional Khadi including Amber Khadi would be on a self-sufficiency basis. Pursuant to the recommendations of the evaluation Team on new Model Charkahas it had also been decided to instal 1040 séts of 6 spindle and 230 sets of 12 spindle new model charkhas during the Fourth Plan period. The production of all varieties of Khadi is estimated to have increased from about 60 million sq. metres in

1968-69 to about 77.2 million sq. Metres in 1972-73. Employment is estimated to have declined slightly from about 1.3 to 1.2 million.

When the Fourth Plan was formulated, it was felt that substantial progress had been made in the rehabilitation of the handloom industry, which is estimated to provide mostly full time employment to about 70 lakhs weavers.

Upto the end of April 1972, the total number of authorised Powerlooms was about 2.9 lakhs. This included about 32,500 Powerlooms out of over 1 lkkhs Powerlooms allocated to the States and Union Territories in 1966.

The development Programme for handicrafts in the Fourth Plan included measures for improving the productivity and earnings of craftsmen and also for increasing the sales, both inside and outside the country. Despite the slackening of the developmental activities at the Centre and in most States, there has been a steady increase in exports and also domestic sales through Public emporia which rose from Rs 4.4 crores in 1968-69 to Rs 6.5 crores in 1971-72. It is estimated that about 14 lakh craftsmen are employed in the Production of handicrafts, both on part-time and full-time basis.

CHAPTER 20

INDUSTRIAL DEVELOPMENT[1]

At the time of the Fourth Plan was formulated, the economy was recovering from a period of recession and there was considerable under-utilized capacity in Industrial Sector, particularly in the capital goods and engineering industries. The main emphasis was, therefore, on reversing the trend in the earlier years and on accelerating industrial growth. It was envisaged that a better utilization of existing capacities would lead to higher Production in the early years of the Plan.

The growth rate of Industrial Production declined from 6.8% in 1969-70 to 3.7% in 1970-71 but increased to 4.5% in 1971-72 and is estimated at around 5% in 1972-73. Preliminary data for the first half of 1973-74 indicate that there has been little or no growth in Industrial Production during this period. Even assuming better performance in the latter half of the year, the overall growth may not be better than that of 1972-73. The growth rate has been thus appreciably below the levels envisaged in the Fourth Plan.

A number of factors have contributed to unsatisfactory growth in Industrial Production, while Production lagged behind in certain industries on account of inadequate capacity, in others certain

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1. Draft Fifth Plan 1974-79, Vol. II, p. 131.

other factors resulted in lower Production in spite of adequate capacity. Thus, in some of the critical industries like steel and fertilizers, production remained substantially below the installed capacity primarily on account of the operational problem in the different units, due to lack of maintenance or design deficiencies. In agro-industries like sugar and textiles, which have a large weight in the index of industrial production, the output during the Plan period showed an erratic trend, depending on the production of related agricultural crops. The inadequate pace of investment resulted in a reduced demand for Industrial Machinery, adversely affecting the level of output of the capital goods industries, while production in other engineering industries was influenced by the shortage of steel and non-ferrous Metals. More recently the widespread shortage of power depressed production in industrial units in different parts of the country to a considerable extent. Shortage of coal and problems in its movements have also contributed to lower utilisation of existing capacity. The output in certain industries was adversely affected because of unsatisfactory industrial relations.

The Investments postulated in the industrial sector have also not proceeded in accordance with the plan assumptions. Shortfalls investments are anticipated both in the Public and Private Sectors. As a consequence, several of the capacity targets in the Plan have not been fulfilled. A part from certain specific reasons as applicable to the Public and Private Sectors, factors like shortage of construction materials and the initial difficulties experienced in the process of indigenisation through larger reliance on domestic

technology and equipment have generally impeded the pace of investment.

In the Public Sector, the Fourth Plan had contemplated a marked step-up in investment, corresponding approximately to double the level achieved in the Third Plan. A pre-condition for the success of such an enlarged investment Programme in the Public Sector was the strengthening of the Public Sector undertakings at the Managerial and technical level. In addition, it also required the creation of an appropriate Machinery in the Government for initiating and evaluating project proposals and for monitoring their implementation. To a considerable extent, the slow progress in investment in the Public Sector can be attributed to the delay in the building up of the requisite administrative, technical and Managerial capabilities to cope up with the task.

The outlay during the Fourth Plan is now estimated at Rs 2700 crores in the Public Sector against the Plan provision of 3050 crores. The major components are indicated below:

Table 1[1]

(Rs crores)

	Fourth Plan	
	Approved outlay	Estimated expenditure
Iron and Steel	1053	867
Nonferrous Metals	248	209
Fertilizers	493	378
Petroleum Exploration & Refinery	303	307
Petro-chemicals	77	82
Coal	110	89
Iron ore	88	80

1. Draft Fifth Five Year Plan, Vol. II, p. 132.

While the pace of investment in some of the sectors like iron ore, Petroleum and Petrochemicals has generally been satisfactory, this has not been so in respect of other sectors like iron and steel, non-ferrous metals, fertilizers and coal. The shortfall is in fact larger than as represented above, if account is taken of the escalation in project cost estimates.

A major reason for this has been the inadequate preparatory work. Feasibility studies in respect of several projects had not been completed well in time before the Fourth Plan commenced. Similarly, in the case of a number of minerals schemes, sufficient detailed investigation had not been undertaken, and as a result the ministeries and the project authorities were engaged in the initial years of the Fourth Plan in formulating the new projects, and their implementation was delayed.

As regards the private sector, the pace of new investment in the early years of the Plan was slow, reflecting the uncertainties that marked the period of recession. With the subsequent revival of the economy, there has been considerable investment interest as represented by the number of letters of intent and licences issued, assistance sanctioned by financial institutions, value of import licences approved etc. However, in spite of these encouraging trends, a review of the position in respect of some of the more important industries shows that whilst the total capacity covered by letters of intent / licences is substantially in excess of what is likely to be required, the progress in terms of implementation has been unsatisfactory.

A number of measures have been taken to correct these deficiencies. Relating to private sector, these measures are :

(i) In order to deal with the problem of sickness in industrial units the industrial reconstruction Corporation of India Ltd., has been set up to assist units which have closed or which are threatened with closure.

(ii) In January 1972, a decision was taken to allow fuller utilization of installed capacity, subject to certain conditions, in 54 selected industries which list was further expanded to cover 11 more industries.

(iii) In order to remove uncertainties, a modified industrial licensing Policy was announced in February 1973, defining inter alia, the role of the larger houses and foreign companies in more specific terms.

(iv) To expedite decisions on proposals from the private sector, a combined Secretariat called the "Secretariat of Industrial Approvals" has been constituted in the Ministry of Industrial Development, with a time bound schedule for scrutiny of different aspects of such proposals like Industries Act licensing. Capital goods licensing and foreign colloboration approvals. Euqally important, time limits for taking effective steps on licences and letters of intent would be more closely adhered to and those on which progress is unsatisfactory would be promptly revoked.

<u>Relating to the Programmes of the Public Sector</u>, <u>the following steps have been taken</u> :-

(i) A high level committee has been set up to go into the problems of sector undertakings, and to make recommendations to improve their performance. This Committee has already submitted reports in respect of a number of Public Sector undertakings. The recommendation made by the Committee cover such areas as the mode of selection of top management, organisational structure manning at the corporate and Plant level, improvement in operation and maintenance, industrial relations, training, Personnel Management. The implementation of these recommendations has already brought about a measure of improvement in some of the Public Sector undertakings. Proposals for the more effective functioning of the Bureau of Public enterprises are also being considered by the Committee.

(ii) To facilitate and expedite the examination and approval of projects in the Public Sector, a Public investment board has been set up.

(iii) A high level monitoring and evaluation unit has been constituted in the Planning Commission. Its responsibility will include, inter-alia a regular review of implementation and production performance of Public Sector Projects, in consultation with concerned departments of government so as to assist in the necessary coordination and implementation of such projects.

Certain other steps have also been taken in pursuance of the broad policies laid down in the Fourth Plan. These are :-

(i) The MRTP Act was brought into force from June 1970

with a view to curbing concentration of economic power.

(ii) Guidelines have been formulated governing participation by the Public Sector financial institutions in undertakings assisted by them.

(iii) As a part of the Policy for the promotion of the Small Scale Sector, a total number of 124 industries have been reserved for exclusive development in this sector.

(iv) In persuance of the Policy of dispersal of industries, backward Districts have been selected for the purpose of concessional finance from institutions, and on investment subsidy by the Central Government.

(v) A scheme for Transport subsidy has been initiated for industries located in Jammu and Kashmir, States and Union Territories in the North Eastern Region, Himachal Pradesh and the hill districts of Uttar Pradesh.

CHAPTER 21

CRITICAL ASSESSMENT

INFLATIONARY PRESSURE[1]

The first intimation of the inflationary pressures came in 1972-73. Thereafter these pressures gathered strength in 1973-74 and continued unabated right upto September, 1974. During this period, the index rose by 31.8%. Food articles and industrial raw materials accounted for about two-third of the price increase. The prices of Machinery, Transport Equipment and manufactured goods contributed to a little over one-fourth to the overall increase in prices. These pressures were first felt as a result of severe drought conditions in 1972-73, followed by shortages of various essential consumer goods and critical raw materials and inputs. Shortage of power together with higher international prices of imported inputs and inadequate availability led to the stagnation of Industrial Production during 1973-74. The price situation was aggravated by continued expansion in money supply partly due to large deficit financing and partly due to excessive expension of bank credit to the Commercial Sector. Thus in 1973-74 the money supply increased by 15.4% over and above the increase of

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1. Fifth Five Year Plan, Published in 1976, page I and II.

15.9% registered in 1972-73. Acting together with the unaccounted money unregulated expansion of money supply in a situation of shortages provided on added inpetus to the activities of speculative and unsocial elements. Owing to the escalation of costs and prices, even the administered prices of important intermediate goods such as steàl, coal, cement and aluminium had to be raised as a defensive action. The procurement and issue prices of important cerals such as rice and wheat were also increased significantly. This not only had a direct impact on the cost of living index but also strengthen the inflationary tendencies.

The Balance of Payment Position also came under severe strain. Large quantities of foodgrains and essential wage goods had to be imported. The four-fold increase in oil prices and increase in prices of cerals, fertilizers, machinery and equipment, non ferrous metals and other imported goods severely eroded the resources. The value of the three principal items of imports, namely food fertilisers and POL accounted for as much as 53.2% of the total import bill 1974-75, as against 42.6% in 1973-74 and 23% in 1972-73. In absolute terms the import bill for these items increased from Rs 431 crores in 1972-73 to Rs 1260 crores in 1973-74 and to about Rs 2500 crores in 1974-75. No doubt value of exports also increased but the balance of Trade showed a deteriorating trend. The Trade gap turned from a surplus of Rs 103.4 crores in 1972-73 to a deficit of Rs 432 crores in 1973-74 and Rs 1190 crores in 1974-75. This trend was both on account of sharp deterioration in the terms of trade since 1973 and larger imports of certain commodities mentioned above. Borrowings from IMF including special

additional facility to the extent of about Rs 485 crores was resorted to in 1974-75 to meet the deficit in balance of payment.

These developments together with uneasy economic conditions in some countries abroad and unstable international Monetary conditions could not but have an adverse impact on the Plan.

PART VI

CHAPTER 22

OBJECTIVES AND OUTLAYS INCLUDING 20 POINT ECONOMIC PROGRAMME UNDER THE 5th FIVE YEAR PLAN

The two strategic goals of the Fifth Plan are : (i) removal of Poverty, and (ii) attainment of self-reliance. The Fifth Plan is part of a long-term Perspective Plan for the Indian economy covering the period 1974-75 to 1985-86. For the removal of Poverty, the Plan deals with the Population issue, the trends in urbanisation, the increasing labour force and the output structure. The Plan envisages an average growth rate of 5.5% in the gross National Product at "factor cost". It prescribes the long term rate of growth which the National Economy has to achieve as a self-sutaining basis at 6.2% per annum. The Plan states that in order to attain the basic objectives it would be necessary to achieve higher rate of growth, better distribution of incomes and a very significant step up in the domestic rate of savings.

The main instruments of the Economic Policy shall be :

(a) Appropriate allocation and utilization of investment outlays for different sectors, including the Private Sector;
(b) Package of incentives to direct the flow of Private investment into socially preferred uses and away from areas of low social profitability;

(c) Institutional reforms which will release production and more equal distribution of benefits of extra production;

(d) Fiscal and monetary measures to direct the process of development in a non-inflationary manner.

The programmes of development in the industrial and mineral sector during the Fifth Plan have been formulated keeping in view the twin objectives of self reliance and growth in the social justice. Following these considerations, the Plan for the industrial and mineral sector, aiming at an annual growth rate of 8.1% envisages a pattern of investment and production that lays emphasis on the following[1]:

Rapid Growth of the Core Sector Industries -

The rapid development of core sector industries is vital for a sustained growth on a long term basis. The industries contribute to significant import savings and thereby lend strength to the economy. Accordingly, high priority is attached to expension in steel, non-ferrous metals, fertilizers, mineral oils, coal and machine building.

Export Production -

The substantial increase in export earnings envisaged in the Fifth Plan calls for the rapid diversification and growth of exports manufactured goods. The Industrial Programmes provide on a selective basis, surplus capacity required for exports.

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1. Draft Fifth Five Year Plan, Vol. II, p. 133.

Adequate Supply of Mass Consumption Goods -

In order to provide an adequate supply of mass consumption goods, the Industrial Programme includes a substantial expansion of production for essential commodities like cloth, edible oils and vanaspati, sugar, drugs and consumer durables like Bicycles. Furthermore, the production pattern in these industries would be so adjusted as to cater to those varieties required for mass consumption, at prices which are within the reach of the poorer sections of the population. The production programme will be supported by appropriate distribution arrangements.

The growth of productions of essential goods, except as required for exports, will be severally curbed during the Fifth Plan. Measures are also envisaged to prevent the diversion of scarce materials for the production of such goods. The pattern of production envisaged in the Fifth Plan fully reflects this approach.

The Industrial Programmes are so conceived as to achieve the other socio-economic objectives of diffusion of ownership, maximisation of employment, dispersed growth of industrial and upgrading of scientific and Technological capabilities through :

(a) Encouragement of village and Small Scale Industries - The Fifth Plan has assigned an important role to production on a decentralised basis through the further development of Small Scale industries. Except in circumstances where technological considerations limit the choice to capital intensive techniques, expansion of production will be achieved substantially through employment intensive methods.

In addition to 124 industries, the future development of which has been exclusively reserved for growth in the Small Scale Sector industries, an intensive programme for the development of ancillary industries, as feeder industries to large scale units, is envisaged. A substantial outlay has also been provided for the expansion and promotion of other traditional small industries like handlooms, handicrafts and sericulture.

(b) Development of Industrially Backward Areas ; Special attention will be devoted to the development of industrially backward areas. The scheme for concessional finance and subsidies initiated in the Fourth Plan would be continued.

The main constraints in the industrial development of backward areas are that the strategy for the development of these areas has not been completely mapped out in terms of the inherent problems which have accounted for industrial backwardness and the organisational arrangements necessary to spearhead and support the industrial development programme in backward areas both in Centre and in the States are inadequate.

In the Fifth Plan it is, therefore, proposed to create an appropriate machinery that is a capable of identifying industries suited to the needs and potentialities of the backward areas through techno-economic surveys and feasibility studies; undertaking integrated planning and development of the infrastructure, such as roads, water supply, power etc., in selected growth centres

located in the backward areas and providing a package of financial, marketing and other services to potential entreprenuers for setting up new units in the backward areas. In the execution of such a programme, the concerned State level agencies have necessarily to be fully involved and committed, and indeed a major part of the resources and efforts in implementing such a programme must be provided by the State Government.

Policy Framework[1]

It is important to provide an appropriate Policy framework conducive to the realisation of investment and production programmes in the Plan. The more important elements of the proposed policy framework for the Fifth Plan are discussed below;

Industrial Policy : The Government have reaffirmed that the Industrial Policy resolution of 1956 will continue to govern the direction of Industrial Policy during the Fifth Plan. Accordingly the programmes in the Public Sector have provided for the expansion of industries in Schedule 'A' of the Industrial Policy Resolution. The Public Sector will also make a significant contribution to the expansion of capacity in essential consumer industries like cement, paper, drugs and pharmaceuticals and textiles. The co-operative sector will be further encouraged and assisted, particularly in the development of additional capacity in Agro-based industries and

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1. Draft Fifth Five Year Plan 1974-79, Vol. II, p. 134.

mass consumption goods. At the same time, the private sector will have a useful role to play in contributing to additional production subject to the priorities and objectives of the Fifth Plan.

Industrial Licensing Policy : The Industrial Licensing Policy for the Fifth Plan was set out in February 1973. Industries which are open along with other applicants, for the participation of larger Industrial Houses and foreign companies have been defined. These include the Core Industries of importance to the National economy in the future, industries having direct linkage with such core industries and industries with a long term export potential. Larger houses and foreign concerns will be eligible to participate in and contribute to the establishment of these industries, along with other applicant, provided the item of manufacture is not one that is reserved for production in the Public Sector or in the small sector. Larger houses and foreign companies will ordinarily be excluded from the industries not specified above, except where production is predominently for exports. Government Policy will continue to be to encourage competent small and medium entreprenures in all industries. Such entreprenuers, along with cooperatives, mass consumption goods with the Public Sector also playing an increasing role. Other investors will be allowed to participate in the production of mass consumption goods, only if there are special factors such as sizable economies of scale resulting in reduced prices, technological, improvements, large investment requirements, substantial export possibilities or a part of modernisation.

Industrial Development and Environment : It has to be ensured that the pursuit of developmental goals does not lead to a reduction in the quality of life through deterioration in environmental conditions. It is therefore, necessary that in the rational development of industrial activity and in the utilization of natural resources, due weight is given to the impact of such activity on the environment. Timely specialized advice on environmental aspects can help in proper project design in averting subsequent adverse effect on the environment, and in preventing the loss of invested resources.

Process industries like ferrous and non-ferrous metals, fertilizers, Petro-chemicals, Paper and Pulp and cement generate a considerable degree of pollution. Wastes from these industries, in the form of water-borne effluents, atmospheric emissions and solids can be hazards to life, health and property. In most cases technologies are already available which at some additional expense, can be employed to reduce pollution. The costs for prevention of pollution will have to be considered an integral part of the project investment.

Industrial Relations : A pre-requisite to the successful performance of the industrial sector is the maintenance of a climate of healthy industrial relations. To this end, a fresh approach to industrial relations will be necessary. This will entail three distinct steps within a broad policy framework.

In the first place it will be necessary to provide an equitable system for sharing the gains of higher performance.

One effective approach will be to broad-base the reward structure of the industrial employees in terms of wage and non-wage benefits on the one hand, and on the other, to link this structure more directly to the performance records in industrial entreprises. In evolving such a system it is essential to co-ordinate efforts at all levels, national, state and local.

Secondly, in order to sutain conditions of peace for higher performance, an improved institutional framework for effective bargaining relationship between the representations of employees and the management would need to be created. This would involve the definition of conditions for the determination of the representative character of the bargaining agent too. Biportite relations would require to be given a predominant role in establishing a desirable state of industrial relations.

Thirdly the attention will need to be given a systematic programme of re-education of employees at all levels in order that the spirit of industrial democracy can be cultivated. It would essential on the one hand to protect society from the likely adverse effective of a collusive relationship between a representative Union and Management, and on the other to promote mutual trust and accomodation between the two organised parties to accelerate growth with social justice though the forms and processes of industrial democracy.

<u>Plan Outlays</u>[1]:

The draft Fifth Five Year Plan envisaged an outlay of Rs 37,250

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1. Fifth Five Year Plan, 1974-79, published in 1976.

crores in the Public Sector. The revised Plan outlay is now estimated at ₨ 39,303 crores excluding provision for inventories.

Not only has the total Plan outlay been increased from ₨ 37,250 crores to ₨ 39,303 crores but the outlay for the next two years has been reckoned at ₨ 19,902 crores as against the estimate for the first three years of the Plan which aggregate to ₨ 19,401 crores.

20-Point Economic Programme :

The 20-Point Economic Programme was announced by the Prime Minister on 1st July, 1975. The various constituents of the 20-Point Economic Programme, especially those which require financial investment, have been identified. Priority has been accorded to the implementation of the schemes falling under this programme. The outlays of the Centre, States and Union Territories for the remaining two years of the Plan 1977-79 and the Fifth Plan are indicated below:-

Table 1

(₨ in crores)

	1975-76 antici-pated	1976-77 approved outlay	1977-79 proposed outlay	Total
0	1	2	3	4
Centre	119.01	163.71	757.06	1039.78
States and Union Territories	1850.68	2173.97	5334.67	9359.32
Total	1969.69	2337.68	6091.73	10399.10

Overall Outlay - The distribution of the outlays by Sectors, by

ministeries, by States and by Union Territories is shown below;

	(Rs crores)
1. Central Sectors	19954.10
2. States	18265.08
3. Union Territories	634.06
4. Hill and Tribal areas	450.00
Total	39303.24

CHAPTER 23

INDUSTRIAL DEVELOPMENT UNDER PLAN

Deferment of the finalisation of the Plan did not employ a plan holiday but a rephasing of the Plan outlays, in the light of emerging circumstances. It implied that while planning, one had inevitably to pay considerable attention th the short-term management of the economy. Measures had to be devised urgently for containing inflation at home and for keeping the economy in proper alignment with the fast changing international development. Necessarily priorities had to be defined even amongst the stated priorities consistent with the objectives of the draft plan. Naturally the food and energy became the most important sectors for investment planning. The successive Annual Plans had to be formulated on these considerations.

The Annual Plan 1974-75 was formulated at a time when the inflation rate was quite high. It was, therefore, designed mainly to control inflation and increases production particularly in the key sectors. The Plan outlays had to be kept at a modest level. Yet care was taken to ensure adequate provisions for agriculture including irrigation and fertilisers, energy (Power, Coal and Oil), on going projects in steel, non-ferrous metals and certain basic consumer goods industries. Emphasis was on fuller utilization of the unutilized capacities.

Recent Trends in Industrial Production and its Critical Assessment:[1]

The index of Industrial production recorded an increase of 2.5% in 1974-75. This was no doubt an improvement over the performance in 1973-74 when the index showed a slight decline. Nevertheless, the growth of industrial output in 1974-75 fell short of the average annual increase of 3.9% recorded during the Fourth Plan period.

The rate of growth of Industrial Production during the first six months of 1975-76 was about 3%. During the first quarter, the rate of growth was less than one percent. However, there was a substantial step up in the second quarter when industrial production increased by 5% as compared with the corresponding period of the preceding year.

An analysis of production data for selected industries shows that the output of industrial enterprises in the Public Sector has increased substantially. The weighted average rate of growth for the Public Sector as a whole, outside of NTC Mills, was close to 15% during April - December 1975 as compared with the corresponding period of the proceeding year.

There has been a notable improvement in capacity utilization in the Public Sector enterprises covering industries such as iron and steel, nitrogenous fertilizers and non-ferrous metals. Another noteworthy feature of the industrial scene during recent months is that there has been a substantial increase in production of

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1. Economic Survey 1975-76, p. 9.

such vital intermediate products as coal, iron and steel, aluminium, cement and nitrogenous fertilisers. For example, the productions of stable steel went up by 17% during the period April - December 1975 as compared with the corresponding period of 1974. During the same period, productions of coal rose by 12% of nitrogenous fertilisers by 29% of aluminium by 44% and cement by 14%. The generation electricity went up by 11% during this period.

There has been a substantial increase in the production of chemical products, such as soda ash. The overall picture of capital goods industry is also favourable since production of diesel engines (Vehicular and stationary), railway wagons, boilers and machine tools, and Machinery for production of sugar, paper and chemicals has gone up substantially. If the overall performance of Industrial Sector still remains unsatisfactory, it is largely due to a sharp decline in the production of Cotton Textiles and of a number of other industries such as Jeeps and Motor Cars, Room Air Conditioners, Cigarettes, Radio Receivers, Electric Fans, Dry Cells and Plastics. The production of Mill made cotton cloth and yarn during the period April - December 1975 shows a fall of 10.3% and 4.5% respectively as compared to April-December, 1974.

In making revised allocations, speedy completion of Projects and appropriate action for starting new projects with long-gestation periods have been kept in mind. As against an outlay of Rs 13,528 crores envisaged in the draft Fifth Plan, the revised

figure is placed at Rs 16,660 crores, Rs 9,660 crores in the Central and States Public Sectors and Rs 7,000 crores in Private and Cooperative Sectors.

Central Public Sector[1]:

The broad break up of certain important groups of industries in the Public Sector is as follows:

Table 2

Outlays for Important Groups of Industries

(Rs in crores)

Industry	Outlay
1. Steel	1675
2. Fertilisers	1533
3. Coal	1147
4. Oil exploration refining and distribution	1575
5. Petro-chemicals	349
6. Machinery and engineering industries	365
7. Non-Ferrous Metals	468
8. Iron ore (including Kudremukh Projects)	513
9. Paper and Newsprint	203
10. Cement	102
11. Textile	104
12. Ship-building	147

1. Fifth Five Year Plan 1974-79, Published in 1976, p. 61.

Despite an encouraging trend in the production of capital goods and intermediate products, industrial growth has been affected by the unsatisfactory performance of cotton textiles and a number of other consumer durables. That the demand for consumer durables, including cloth, which is postponable, has been affected, is not surprising in the background of the sluggishness in the growth of the economy in recent years. In the case of Cotton Textiles, a decline in export demand and unsatisfactory arrangements for the distribution of controlled cloth seem to have accentuated diffiaulties, though the latter problem is likely to be resolved as a result of certain recent policy decisions for streamlining the systems.

Judging by the trend in the production of such vital inputs as power, coal, cement and iron and steel, it appears that shortages of critical raw materials are no longer a valid explanation for sluggishness of industrial production. It has also to be noted that the decline in the production of cotton textiles has come about despite a very comfortable position with regard to the supply of raw cottons. The import Policy for 1975-76 is, on balance, more liberal than before, and shortages of imported raw materials are no longer as keenly felt now as in the past. There has been a considerable improvement in the efficiency of the transport services. Moreover since the declaration of the Emergency, there has been a notable improvement in Industrial relations in as much as the number of man-hours lost through industrial disputes has declined drastically in recent time. It is again a well known fact that, in a number of major industries, a sizeable proportion

of capacity remains unutilized, so that output can be increased without further investment. All these factors suggest that during 1975-76, the supply conditions were, after many years sufficiently conducive to a rapid expansion in Industrial production. If in spite of favourable supply conditions, the overall rate of growth of industrial production in 1975-76 is not likely to exceed 4.5% the explanation must be sought, to an extent, in terms of demand conditions.

There are basically four sources of demand for Industrial products. Firstly, Public Sector investment is a major determinant of the demand for construction materials as well as machinery and equipment. For 1975-76, the Plan outlay has been increased by 23% in nominal terms. Although in real terms, the increase in the Plan outlay may not be as large, because of the somewhat higher cost of machinery this year it appears that the generally favourable trend in the production of capital goods, and of construction materials such as cement, is largely attributable to the step up in Plan outlay. Secondly, in a number of member industries the export demand exerts an important influence on production. Thirdly, there is consumers demand for industrial goods. Fourthly, there is the well known influence of the inventory cycle.

It needs to be emphasised that the Industrial growth rate can not be stepped up simply by relaxation of fiscal and monetary discipline. Fiscal and monetary policies must of course, respond quickly to changes in basic economic conditions, and it is precisely for this reason that the Annual Plan for 1975-76 provided

for a step of over 40% in outlay for industry and minerals. Both fiscal and monetary policies have become more expansionary is evident from the fact that money supply has expended thus far by 6.7% in current year as against only 4.1% during the corresponding period of last year. Any further relaxation in fiscal and monetary discipline has to be viewed in the context of the continued need to maintain reasonable stability of prices in the face of the inevitable fluctuations in agricultural output which characterise our economy. That certain sectors of the industrial economy are faced with difficulties which may affect employment has, no doubt, to be taken note of in the formulation of economic policies. It is in recognition of this fact that in November 1975, Government effected some modifications in the arrangements for distribution of controlled cloth which, earlier, had led to accumulation of stocks with the mills. The decision to relax restrictions on construction activities in the public sectors, and provisions of more funds for low cost housing and the mass transportation system, are designed to facilitate greater utilization of capacity in accordance with broad national priorities.

CHAPTER 24

INDUSTRIAL DEVELOPMENT IN 1975-76 INCLUDING SOME BASIC INDUSTRIES[1]

The performance of the Industrial Sector in the Calendar year 1975 was rather mixed while industries in the 'Core Sector' such as coal, electricity, steel, fertilizers and cement witnessed a growth rate of over 10%. Certain subsectors like cotton textiles and yarn and some consumer durables, recorded actual declines in production. As a consequence, the rate of growth for the Industrial Sector as a whole was only 3.9%, although this was significantly higher than the growth rate of 2.2% achieved in 1974.

Production indices available for the first six months of 1976 (January - June), indicate that the prospects of Industrial growth in 1976 are relatively much brighter. The general index of industrial production during the first half of 1976 was higher by as much as 13% than in the corresponding period last year. Some of the industries contributing to such a high growth rate during the period are ; Cement (+ 264%), Saleable steel (+ 23.3%), steel ingots (+ 13.9%), electricity (+ 22%), Vanaspati (+ 26.5%), coal (+ 9.9%), cotton yarn (+ 10.7%), and cotton cloth mill sector (+ 6.2%).

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1. Report on Currency & Finance, Vol. I, Economic Review, 1975-76, p. 27.

During 1975 industries such as Cotton Textiles and Yarn, and those manufacturing consumer durables such as cars, electric fans, dry cells, etc., had recorded sizeable declines. Consumer resistance to already high prices as well as purchasing power in the hands of consumers reduced owing to the measures taken by the government to regulate demand had probably contributed to sluggish demand for superior varieties of textiles whereas the deficiencies in the distribution arrangements had caused lower off take of controlled cloth. In the case of some of the other consumer and consumer durable industries, while resistance to high prices had been one of the influences, sluggish export demand as well as power cuts and hike in power rates by some State electricity Boards were other important factors. In order to stimulate demand for the products of these industries, the Governments towards the end of 1975, took some measures such as relaxing the restrictions on the construction activity, introducing modifications in the distribution policy for controlled cloth and reducing excise duties in the case of a number of consumer durables.

The overall growth in the Industrial Sector during 1975 was higher by 3.9% over that of the preceding year. However, the number of industries showing increases or decreases in their output during the year differed substantially from those of the preceding year. Thus the total weightage of industries showing a rise in output declined from 66% in 1974 to 52% in 1975, while the total weightage of industries showing decline in output increased from 17% to 32%. This may be explained by the fact that

certain industries belonging to the consumer goods industries group which showed increases in output in 1975. Production of basic industries group recorded a substantial rise of 13.2% on top of a rise of 3.9% in 1974. Production of intermediate goods industries group improved marginally by 0.4% as compared with a fall of 1.0% in 1974. Both the remaining groups, viz., 'capital goods industries' and consumer goods industries registered decline of 0.1% and 0.8% as against a rise of 4.3% in the case of 'capital goods industries' during the previous year.

Groupwise 'Basic industries': The output of all the major industries such as cement, mining and quarrying, iron & steel, fertilizers, electricity, etc., recorded increases between 9% and 31% except industries in non-ferrous metals group. Non-ferrous metal industries recorded a marginal decline of 0.5%.

In the 'Capital goods industries' machine tools and motor vehicles are the two major industries which recorded declines of 3.8% and 3.4% respectively during the year. All other major industries, such as agricultural machinery, hand tools and small tools, rail road equipments, electric motors, electric cables, power transformers etc., recorded increase being particularly significant in the case of agricultural machinery and hand and small tools.

Table 1

Trends in Industrial Production - Groupwise (Base 1970 = 100) (Based on C.S.O.'s Index of Industrial Production)[1]

Groups	Variations during the year: Percent %			
	Weights	1973	1974	1975
1	2	3	4	5
General Index (Crude)	100.0	+ 1.5	+ 2.2	+ 3.9
Use-Based Classification				
1. Basic Industries	32.28	- 3.1	+ 3.9	+13.2
2. Capital goods Industries	15.74	+16.0	+ 4.3	- 0.1
3. Intermediate goods industries	20.95	+ 2.7	- 1.0	+ 0.4
4. Consumer goods industries	31.03	+ 6.4	- 4.5	- 0.8
Input Based Classification				
1. Agro-based Industries	33.68	- 0.2	- 0.9	- 2.6
2. Metal based Industries	21.93	+11.8	+ 5.2	- 2.5
3. Chemical based Industries	12.86	+ 1.4	- 0.7	+ 4.8
Sectoral Indicators				
1. Transport Equipment and Allied Industries	10.79	+15.5	+ 2.9	- 2.6
2. Electricity & Allied Industries	14.53	+ 2.3	+ 6.7	+ 3.2

1. Report on Currency & Finance, Vol. I, Economic Review, 1975-76, p. 30.

Capacity Utilization[1]:

Capacity utilization ratios in 1975 for various industries do not show any significant change as compared to 1974. Out of 30 selected industries, utilization ratios in the case of only 8 industries were higher during the year compared to their respective levels in previous year.

Groupwise distribution of the 8 industries showing an increase in the utilization ratios is as follows: Basic Industries 1 (cement); Capital goods industries - 2 (Machine Tools); intermediate goods industries - 3 (storage, batteries and paint and varnishes) and consumer goods industries - 4 (Vanaspati, soap, footwear - western type (leather) and glass and glassware - sheet glass). The increase in these cases showed a wide range between 69.3% (glass and glassware) and 1% (storage batteries). The extent of decline in the case of 22 industries was also of a wide range i.e., between 72.5% (huricane lanterns) and 2.2% (cycles tyres).

Production of some Basic Industries -

(a) Coal :

The production of coal (including lignite) reached a record level of 98.7 million tonnes during 1975 registering an increase of 11.6 million tons or 13.3% over the production in 1974.

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1. Report on Currency & Finance, 1975-76, p. 33.

The substantial increase in production during the year has resulted from a general improvement in productivity, which received an additional boost with the implementation of a 12-point Auction Programme announced on August 1, 1975. The programme envisaged among others, working of mines overlapping shifts of eight hours each, seven-day working of mines with staggered holidays for workers, better utilization of machinery, manpowers in the mines identified to have got such surpluses. In addition better availability of Railway transportation and improved supply of essential inputs like equipment and spares, power, steel, cement, explosives etc. contributed to the improvement in output.

With effect from November 1, 1975, all the coking as well as non-coking coal mines under central ownership have been brought under a single holding company viz., Coal India Ltd. (CIL) with five subsidiaries including Bharat Coking Coal Ltd. The holding company has been intrusted with tasks of fixing and moniforing targets of coal production, determining standard costs and retention prices and laying down wage policies and guidelines for industrial relations. It is expected that the reorganisation of the industry would help in achieving the Fifth Plan Target of 124 million tonnes.

It may be recalled that the Government, in pursuance of the recommendations of the Chakravarty Committee an average increase of Rs 17.50 per tonne in prices of different grades of coal over the prices prevailing earlier to July 1, 1975. These prices were to remain in force till March 31, 1976. Keeping in

view the need for promoting stable growth, the Government is reported to have decided in March 1976 on a moratorian on coal prices for six months from April 1976 and utilize the intervening period for a realistic appraisal of pricing with reference to quality, grades and costs including overheads, etc.

During 1975, five Lakhs tonnes of coal were exported mainly to traditional markets like Gangladesh, Burma, Bhutan and Nepal. Possibilities of exporting coal to Japan and some of the countries of the European Economic community were being explored by the minerals and Metals Trading Corporation.

(b) Iron and Steel Industry[1].

The Iron and Steel Industry, having staged a recovery in the year 1974-75 from the severe set back suffered in 1973-74, continued to show improvement in production during the financial year 1975-76. Going by the C.S.O. data production of both Pig Iron and Saleable Steel had touched all time high : the former at 8.5 million tonnes and the latter at 6.2 million tonnes showed increase of 10% and 12% respectively, over the previous year. Production of steel ingots and finished steel rose to 7.7 million tonnes and 5.5. million tonnes, recording increases of 7.9% and 7.2% respectively, over the 1974-75 levels. This striking improvement was rendered possibly by the efforts of the Governments and of the production units to maximise output through better management and improved industrial relations,

1. Report on Currency & Finance, Economic Review 1975-76, p. 37.

consequent on the conclusion of a wage agreement with workers in July 1975. Relatively large availability of essential inputs like coal and electric power had also contributed to the increase in output. Reflecting the rise in output, capacity utilization during the year under review improved to 72% from 69% during the previous year.

The production of steel in 1976-77 has picked up appreciably. In the first quarter of 1976-77 (April-June) production of steel ingots, saleable steel and finished steel amounted to 2.0 million tonnes, recording remarkable increases of 27.7%, 34.5% and 23.4% respectively, over the output levels of the corresponding period of 1975-76. It is estimated that the production of saleable steel from the integrated Steel Plants in 1976-77 will be of the order of 6.5 million tonnes as compared to 5.8 million tonnes in 1975-76 mainly on account of the increased output from the first stage of Bokaro Steel Plant.

The Steel Authority of India Ltd. (SAIL) is preparing a blue print for a 25 years programme for steel industry in India. The blue print is expected to be ready by the end of 1976 and can be used as the basic document for subsequent revision depending on the future economic development of the country.

CHAPTER 25

VILLAGE AND SMALL INDUSTRIES[1]

The number, volume and range of production of Small Scale industries have continued to grow. Schemes of extention services and increase in institutional finance have materially assisted in this increase. Regional testing centres have been established. A few branches of small Industries Service Institutes have also been opened.

For the next two years, adequate provisions have been made both for the continuing schemes and for schemes to be formulated for margin or seed money to facilitate institutional finance and for supply of machines on hire-purchase terms.

Industrial Estates

Of 455 estates functioning by March 1974, 347 were located in urban and semi-urban areas and the remaining 108 in rural areas. In these estates, about 10,140 units were functioning providing employment to 1.76 lakhs persons. Adequate provision has been made for the continuing schemes as well as some new schemes.

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1. Fifth Five Year Plan 1974-79, published in 1976, p. 67.

Khadi and Village Industries

The employment in Khadi registered an increase from 9.78 lakhs in 1974-75 to 10 lakhs persons in 1975-76. The increase in village industries was from 9.82 lakhs to 11.28 lakh persons.

A study has recently been completed by the Administrative Staff College, Hyderabad, regarding the viability of some village industries. Meanwhile provisions have been made for expansion of existing programmes.

Handloom and Powerloom Industries -

Certain special schemes have been initiated for revitalization and Development of the Handloom Industry as a part of the 20-Point Economic Programme. These Schemes include intensive Development projects (each covering about 10,000 handlooms) and export oriented production projects (each covering about 10,000 handlooms).

Adequate provisions for continuing schemes as well as for the states to meet a point of the cost of intensive development projects have been made. For the powerloom Industry, provisions have been made for processing facilities and setting up technical service centres. Value of export of handloom fabrics and manufactures is expected to go up to Rs 140 crores from the current level of about Rs 100 crores.

Coir Industry :

Recently, a high-powered study team has been set up to review the progress and suggest measures for the development of this industry. Meanwhile, adequate provisions have been made for the continuing schemes. Over the next two years, the value of exports is expected to increase from the present level of about Rs 19 crores to Rs 22 crores.

The levels of production and exports achieved by some industries are shown as below;

Table 1

Physical Targets and Achievements Village and Small Industries*

	Draft Fifth Plan	1974-75 (actuals)	1975-76 (Likely)	1976-77 (anticipated
(0)	(1)	(2)	(3)	(4)
Production :				
1. Cotton cloth handloom and powerloom (M. metres)	4,800	3,800	4,100	4,200
2. Khadi-quantity (M. metres)	-	59.72	61.20	63.00
3. Value (Rs crores)	-	43.28	52.50	53.85
3a Raw Silk (M. Kgs)	4.6	3.00	3.2	3.8
4. Village Industries[1] Value (Rs crores)	-	136.31	153.46	176.11
Exports :				
5. Cotton Handloom fabrics and manufactures[2] (Rs crores)	-	92.00	97.00	107.00
6. Silk Fabrics and waste (Rs crores)	21.0	12.7	17.5	18.5
7. Coir Products -				
quality (000 tons)	-	42.0	36.0	40.0.
value (Rs crores)	19.0	17.9	19.0	20.0
8. Handicrafts (Rs crores)	220.00[3]	190.4	192.0	205.0

1. The figures relate to the centres assisted by the Khadi and Village Industries Commission.
2. Export Projection for the five year period (1974-79) in respect of handloom price goods was envisaged at Rs 155 crores under the draft fifth Five year Plan.
3. Although the credit was taken in the export projection for handicrafts in the Fifth Plan for Rs 220 crores in 1978-79, the endeavour was to be made to increase it further to Rs 250 crores.

* . Fifth Five Year Plan 1974-79, Published in 1976, p. 149.

CHAPTER 26

INDUSTRIAL LICENSING POLICIES[1]

During the year 1975-76 particularly since the launching of the new economic programme, important changes in the sphere of industrial licensing have been made with a view to stimulate investment in the priority sectors, and to ensure fuller utilization of the installed capacties. Recognition has also been given to any increase in capacity which may be the outcome of the replacement of old equipment and modernisation of Plant and Machinery, provided it does not result in any encroachment on production reserved for the Small Scale Sector and does not entaile any increase in the foreign exchange requirements. The increase in capacity taking place through replacement and modernisation would be over and above the normal permissible limits of 25% in excess of the authorised or licensed capacity. Moreover selected engineering Industries have been permitted automatic growth of capacity at rate of 5% per annum, or upto a limit of 25% in a Plan period, in physical terms, over their present authorised capacity, subject to certain conditions. Besides in order to stimulate interest in research and Deve-

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1. Economic Survey, 1975-76, p. 12.

lopment, Industrial firms (other than those falling within the purview of the MRTP Act and FERA) have been allowed to set up capacities based on their own in house R & D activities with approval of the Government.

In order to encourage investment in industry, it has been decided to delicense 21 industries. However firms covered by the MRTP for foreign exchange Regulation Acts would still have to seek an industrial licence. In addition, medium entrepreneurs in 29 specified industries have been allowed to use their existing installed capacity without limit, even though this may be in excess of their licensed capacity. Even firms covered by MRTP and FERA Regulations can take advantage of this facility if the additional output is meant for export or is to be disposed of in accordance with the manner prescribed by Government.

With a view to facilitate quicker disposal of applications for diversifications, carrying on business, and extension of the validity period of industrial licenses, the Rules framed under the Industries (D & R) Act are being amended so as to provide for delegation of powers to the administrative Ministries concerned. The facility of endorsement of industrial capacities on the basis of maximum utilization of plant and machinery would also be extended to units registered with technical authorities or the Director rate of Small Scale Industries.

CHAPTER 27

THE INVESTMENT CRISIS

I[1]

For quite sometime now the Indian economy has suffered from stagnation. Employment opportunities are sadly lacking; the common man has no money to buy even the items of Primary Consumption and the little that we produce in such basic industries as Steel cannot be absorbed. The root of all this lies, of course, in the t otally inadequate investments made in the economy both, in the Public and Private Sectors. The Janta Party manifesto pinpoints this problem repeatedly, and aptly calls it 'Investment Crisis'.

How did we let this problem arise and reach the crisis stage at all? Not that the previous Government was unaware of this problem. There were enough pointers and statistics all around : The RBI's currency and finance report had disclosed that private sector investments far from increasing significantly, had actually fallen to a mere Rs 1,770 crores in 1975-76 as against Rs 2,548 crores in the previous year. The

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1. Indian Express, April 21, 1977, p. 4.

slow implementation of industrial licenses, trends in disbursals from financial institutions and in the order book position with capital goods indstry and studies by non-official agencies and speeches of industrial chairman all reinforced this view. But the authorities instead of looking for the underlying causes and trying to remove them, were content in taking the charge that Private Sector was on strike and that it was not responding to Government initiatives. The former finance Minister for Example, reportedly made this very point last December when he posed for advice before some academic economists the problem of slack private investment.

The first thing that such an introspection would reveal is that for more than two years now there has been an environment of recession and spreading sickness in industry. Here the important point is that entrepreneurs are unlikely to be enthusiastic about new investments when they find that existing units producing the same goods suffer from inadequate demand and underutilized capacity, and make losses.

Superficially, this may appear paradoxical, considering (a) that the Public Sector outlay was stepped up by 31% and 23% successively in the last two years, and (b) that the Public Sector is now the largest single purchaser of the products of the private sector. The paradox will be resolved when one appreciates that barring the one recent exception for 1975-76, the actual plan expenditure has always fallen well below the targets, even in money terms, and much more so in real terms.

Again the step-up in public outlay, in one year or another, can at best take care of a part of the already installed capacity that re-maintained severally under-utilized; it can hardly encourage investment for installation of new capacities.

In a centrally planned economy like India's if private sector entreprenurs have to come forward with investment plans, they would need a reasonably precise knowledge of at least the broad contours of how the economy is likely to grow in future. This indicates to them the likely gaps between the estimated demand and the installed capacities and enables them to select particular industries and locations in the light of their own strengths and weaknesses.

Moreover any industry that involves installing plan and machinery of some size must run a productive life of at least 15 to 20 years if it is to be worth the trouble and investment of the entreprenuers, and if the resources of the nation that remain locked in such an industry are to be justified. Therefore what industry needs is not only the five year plan, but also the perspective 15 year Plan of which the 5 year plan will be part. For the private sectors, these are the prerequisites for planning investment.

Unfortunately, after the second plan we have suffered from serious lags in plans framing and plan implementation, which become sharp with the Fourth Plan, which concluded rather unceremoniously, and the Draft Fifth Plan document, which was

for all practical purposes, twice still born ! The question whether the factors largely responsible for this inadequate performance were or were not beyond our control is immaterial in the present context. The relevant point is that while entrepreneurs need a clear plan frame, to be able to come up with massive investments, they have been living rather long in an environment where the plan documents are drafted and then not bothered about.

Thex mere presence of National Plans is of course not enoughx. Their needs to be an assurance and an experience that plans are implementable and realistic; and more importantly, that the Government will give the plans a high enough priority to ensure their full implementation. It is not a coincidence that during the first and to a lessor extent, the Second Plan periods, the plan implementation was of a higher order and the private sector investments also over-reached the targets.

II[1]

The Investment Crisis

Are Governments Industrial policies in all its facets turned in to the objective if fulfilling plan targets? Until two to three years ago, the answer would have been an emphatic, No. But in fairness it must be conceded that recently, primarily under the welcome lead of their finance and Industrial Ministeries, the previous Government did take some measures which

1. Indian Express, 22 April 1977, p. 4.

showed a refreshing sense of realism. Nevertheless, even now the picture is far from satisfactory. Entrepreneurs waste years in getting clearances concerning industrial licensing MRTP, capital goods imports, term finance, pricing, foreign collaboration or joint sector collaboration, and what not.

The result is that quite a few proposals for investment are rejected or withdrawn at one stage or another, some entrepreneurs found that by the time they secure all clearances the project costs have escalated to such an extent as to compel them to abandon the project. In case of some, such far reaching modifications were suggested in the original projects by different government agencies, e.g., with respect to raw materials, power supply, location, financing, collaboration terms, etc., that they were multilated beyond recognition and the promoters lost interest in it perhaps by sheer fatigue !

Lest this seems far-fetched, a few concrete illustrations may be useful. At the end of the Fourth Plan, the country was producing only 43,000 commercial vehicles, and the Fifth Plan target was high at 1,10,000. But the Industry presented a picture of Pigged Prices, and rapid escalation in current and capital costs. The low enthusiast who wanted to expand in this activity spent over two years knocking at the doors of the MRTP commission and other Government agencies. Cement and Paper are two other Industries where new private sector investment is not forthcoming, because new units have no hope of competing with old units that have a distinct cost advantage.

The list can be stretched considerably Industrial Policies are however, one of the several sets of Government Policies affecting investment decisions. There are several others including the Fiscal Policies, Policies regarding Industrial Finance and broader issue regarding Nationalization, compensation etc., until recently year after year, these have continued to be less and less helpful. It is well known, for example, that one after another, corporate incentives were either withdrawn or seriously curtailed.

If any private entrepreneurs, particularly the so called monopoly houses, chose, despite these deterrents, to catalyse major investments for the production of priority goods, they were not only not complemented or thanked by either Government or the society for their contributions, but they were made victims of propoganda and made to feel as if they were committing a crime against society. On the other hand, if any of them preferred to remain in shell, they were taken to task for not responding to Governments initiatives and being on strike !

The recent practice of retrospective amendments to legislation has taken its tall. For example, in the budget of March 1975, certain tax concessions were announced for intercorporate dividends in respect of some Industries such as fertilisers, Pesticides, Paper, Cement etc. Presumably with the hope that companies belonging to Industrial Houses would come together for massiveme investments in these high priority but unpopular industries.

True industrial entrepreneurship is a scarce commodity anywhere in the world; more so in developing countries and the slackness in private sector investments in our country to some extent is a reflection that we have failed to augment this entrepreneurial talent in the country.

There is however, another possible interpretation of this picture, which, if true, must be considered singularly unfortunate. Among the entrepreneurs that kept on coming up with new major investment proposals, were there some who took a very short term view of their projects and investments? Illegal cuts and commissions on imported or indigenous machinery, scarce raw materials, etc., would be the prime interest of these. As a result, even before the project start production, such promoters would have taken good care of their personal finances as well as those of their sons, grandsons etc.! These are not the entrepreneurs that are likely to be discouraged by the host of deterrents narrated earlier. Indeed the cost structure of their projects deteriorate and become so unremunerative in the process that they may not grudge a take-over and their own exist from the scene, once their short-term purpose is served. One earnestly hopes that this type constitutes no more than a small minority in Industry; but it would be a sad paradox if any business environment favours only such Pseudo entrepreneurs to rush for investment when others, who have a long-term interest and a reputation to back their project fear to trade.

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